ERSTE Bank

Annual Report for the year ended 31 December 2022

#believeinyourself

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Introduction

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

Croatian and English language version

This document comprises the Annual Report of Erste&Steiermärkische Bank d.d. for the year ended 31 December 2022 stated in English. This report is also published in Croatian language.

Legal status

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

Abbreviations

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

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

Report of the President of the Management Board

Report of the President of the Management Board

The final preparation of the Croatia's entry into the European monetary union was certainly one of the most important events in 2022. Joining the eurozone will lead to further integration of the Croatian economy into the European financial and economic flows, positively increasing its competitiveness and attractiveness to investors, which will ultimately ensure further intensification of the process of convergence. At the same time, the demanding criteria that Croatia had to fulfil as part of the euro adoption process will positively contribute to the achievement of the basic objective — a high-quality and long-term sustainable position of the Croatian economy based on solid foundations.

Changed market environment, interest rates on the rise

After a prolonged period of gradual decline in interest rates, a stabilization of this trend took place in 2022, influenced by inflationary developments, consequences of monetary policy stance and global geopolitical developments. On the other hand, the benefits of the Croatian integration into the monetary union, such as the practical elimination of currency risk, have to some extent mitigated the increase in interest rates in Croatia, compared to some other European countries (especially non-Euro ones). However, in the short term, the level of interest rates will depend dominantly on the moves of monetary policymakers in the segment of raising reference interest rates, in response to the current high inflation environment and the ensuing uncertainties associated with the war conflict in Ukraine.

Operating performance stability and higher net profit in 2022

We are satisfied with the results achieved during 2022 in all business segments, with special emphasis on the growth of total loans with a steady growth of deposits, the influx of new clients, continued leading CX position on the market and the increase in the number of users of digital solutions, George on-line banking and KEKS Pay applications. With further development of these digital solutions, we have reached one of our strategic goals: to be a leader in digital innovation, having further positioned our digital strategy as the trademark of Erste brand in Croatia.

According to an unconsolidated financial report, which includes the results of the Bank excluding subsidiaries, the net profit in 2022 amounted to HRK 977 million, which is 15.3% higher than HRK 847 million in 2021. Net profit growth is the result of a further reduction in risk costs and an improved operating result, supported primarily by growth in income from transaction operations in the post-COVID period and by positive trends in the trading segment. On the other hand, the total amount of net profit achieved in 2022 was influenced by the tax expense attributable to the addition income tax, amounting to HRK 91 million. Net interest income increased by 8.4%, from HRK 1,612 million in 2021 to HRK 1,747 million u 2022. At the same time, the net fee and commission income increased by 15.2%, from HRK 519 million in 2021 to HRK 598 million in 2022. Net trading and fair value result in 2022 reached HRK 309 million, 41.7% more than HRK 218 million in 2021.

The Bank's total assets at the end of December 2022 were HRK 102.6 billion, or 23.9% more than at the end of 2021, when it amounted to HRK 82.8 billion. Total loans to customers as of 31 December 2022 amounted to HRK 53.6 billion, 17.3% more than HRK 45.7 billion at the end of 2021. Total deposits of the Bank's customers as of 31 December 2022 amounted to HRK 80.4 billion, which is 23.9% more than at the end of 2021, when they amounted to HRK 64.9 billion.

EBC Group's net profit before minority interests amounted to HRK 1,172 million in 2022, 9.6% higher than HRK 1,069 million in 2021. ECB Group's net interest income amounted to HRK 2,121 million, 5.9% higher compared to HRK 2,003 million in 2021. Net fee and commission income amounted to HRK 884 million, 9.3% more than HRK 809 million in 2021.

EBC Group's total assets at the end of December 2022 amounted to HRK 112.9 billion, which is 22.3% more than at the end of 2021, when it amounted to HRK 92.3 billion. Total loans to customers as of 31 December 2022 amounted to HRK 58.1 billion, which is 16.2% more than HRK 50 billion at the end of 2021. Total deposits from EBC Group's customers as of 31 December 2022 amounted to HRK 84.2 billion, up 23.3% compared to the end of 2021, when they amounted to HRK 68.3 billion.

Downward trends of NPLs

In 2022, risk costs continued to decline, while the share of the Bank's so-called NPLs was additionally reduced from 5.5% at the end of 2021 to 3.6% at the end of December 2022. With respect to private individuals, the NPL share reached 4.8% at the end of 2022, compared to 8.2% at the end of 2021. In the corporate segment (including sovereign exposure), the NPL share was 2.7% at the end of 2022, compared to 4.4% at the end of 2021. As a responsible business entity, the Bank will continue to monitor and manage its loan portfolio, in accordance with its business policies and applicable credit risk management standards, while respecting all regulatory rules and applying a balanced approach that takes into account the objective market situation and customer needs.

Business sustainability and prosperity of Croatian society as ultimate goals

Being the part of Erste Group, one of the largest providers of financial services in Central and Eastern Europe, Erste Bank Croatia finds a sustainable business model as a ground pillar of its operations. We have identified nine fundamental Sustainable Development Goals to which we wanted to contribute: No poverty ((SDG 1), Good health and well-being (SDG 3), Quality education (SDG 4), Gender equality (SDG 5), Clean water and sanitation (SDG 6), Affordable and clean energy (SDG 7), Sustainable cities and communities (SDG 11), Responsible consumption and production (SDG 12) and Climate action (SDG 13). Apart from almost 20% percent market share in a renewable energy financing and other green incentives, it is to be highlighted that, in cooperation with Erste Group, we have launched our Financial Health tool, designed to support our corporate clients in reaching a healthier financial balance by giving them access to transparent and understandable information about their current financial situation. To sum it up, we have continued with our free-of-charge financial literacy program, School of Smart Finance, with more than 11.500 attendees in total so far.

Croatia can take an optimistic outlook of the future

Uncertainty caused by geopolitical developments, the war in Ukraine, supply chain issues and the high inflation level remain risk factors that threaten economic growth. However, the inflation rate can be expected to stabilise and decrease at mid-year. Also, Croatia's Schengen entry should result in substantial benefits and additional integration of Croatia as a tourist destination into the EU market. Positive perspectives of Croatian tourism will provide extra growth opportunities for other sectors as well. I believe we may conclude that Croatia has additional potential in the ICT sector, and in the medium term, given Croatia's geographic position and the abovementioned integration, in combination with infrastructure development, Croatia can build a stronger position in logistics as well.

Generally, speaking of priorities for 2023, after the above important integration steps, the focus should be on using the potentials of EU funds and their anticyclical capacity in an environment characterised by growth slowdown as efficiently as possible. Similarly, putting the available funds to good use is an important priority also in the context of generating opportunities for faster potential economic growth and creation of prerequisites for more sustainable income convergence, where an increased pace of structural reforms would be an asset. For this process to succeed, we must once again draw attention to the importance of implementing structural reforms. In this context, continual improvement of investment and legal certainty remains a fundamental prerequisite for long-term economic growth and for making use of potentials available to Croatia and us all. Caution should be exercised while introducing new taxes for the most successful companies that generate the highest added value and are a driver of the Croatian economy and a generator of new jobs.

With positive economic trends, stable public finances and potentials of the EU funds usage, and provided that the path of strengthening legal certainty for investors continues, Croatia can take an optimistic outlook of the future. The banking system will continue to strongly support the growth and development of the Croatian economy. This, of course, includes Erste Bank Croatia, which is proud of its results achieved in 2022, which have been completed by two valuable awards presented to us: Zlatna kuna (Golden Kuna) for the most successful Croatian bank, presented by the Croatian Chamber of Economy, and the Bank of the Year Award presented by distinguished The Banker magazine. Our objective will remain the same: to promote the prosperity of our employees, our clients, and the Croatian society in general.

Christoph Schoefboeck,
President of the Management Board

Management Board

CHRISTOPH SCHOEFBOECK, President of the Board
Responsibilities: Human Resources Division, Legal Division until 31 July 2022, Marketing Division, Corporate Communication Office, Strategy and Project Management Division, Internal Audit Division, Management Office
From 1 August 2022 responsible for SME Division, Large Corporates Division, Corporates and Markets Business Development and Support Division, Financial Markets Division

BORISLAV CENTNER, Member of the Board
Responsibilities: SME Division, Large Corporates Division, Corporates and Markets Business Development and Support Division, Financial Markets Division
Member of the Board until 31 July 2022

MARTIN HORNIG, Member of the Board
Responsibilities: Processing Division, IT and Organization Division, Property and Service Management Department

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

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

HANNES FROTZBACHER, Member of the Board
Responsibilities: Risk Management Division, Credit Risk Management Division, Corporate Security Division, Non-financial Risk Division
From 1 August 2022 responsible for Legal Division

Business results of Erste&Steiermärkische Bank d.d. and its subsidiaries in 2022

Business results of Erste&Steiermärkische Bank d.d. and its subsidiaries in 2022

I. Retail segment

Retail loans and deposits

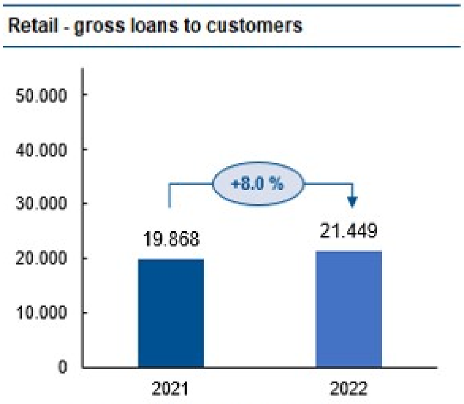


Chart 1: Retail loans in HRK million

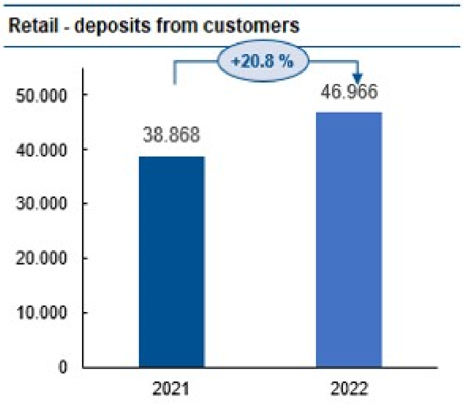


Chart 2: Deposits from customers in HRK million

Total portfolio of the Bank's gross retail loans amounted to HRK 21.45 billion on 31 December 2022, which is increase of HRK 1.58 billion compared to previous year. The market share in retail loans, per Croatian National Bank, amounted to 14.16% as of 31 December 2022 which is increase of 38 basis points compared to 31 December 2021.

The retail deposit market continued its growth in 2022, reaching HRK 46.97 billion as of 31 December 2022, which represents increase of HRK 8.1 billion compared to previous year. Decrease of term deposits continued through 2022 with a trend of decreasing interest rates. Retail deposits reached market share of 16.07% as of 31 December 2022, which represents increase of 95 basis points in comparison to 31 December 2021.

Focus on clients in 2022

Service quality and client satisfaction, as the main strategic determinants of Erste Bank's business operations, have marked business operations in the past year, which is recognized by clients and contributed to growth of private individual's client base to over 904,000 clients.

The biggest focus in 2022 was on the activities of adapting the entire business system, products and services and branch network of Erste Bank for the introduction of euro as official currency in the Republic of Croatia from 1 January 2023. These activities required additional costs and exceptional contribution of our employees. All preparatory activities were carried out in accordance with the planned deadlines and by entering 2023 Erste Bank successfully adapted all its operating systems to the new euro currency and supplied branch network with a sufficient amount of euro cash so that clients could continue to use our services undisturbed after the introduction of new official currency.

Changes in client behaviour and habits, development of new technologies and regulatory framework are continually demanding a change in the existing business model and role of individual distribution and communication channels, where branches are increasingly becoming centres of advisory and solving more complex client requirements, while clients are increasingly using digital services and self-service devices to perform transactions and solve simpler requests. Thus, activities of branch transformation continued throughout the year, which, in addition to a new visual identity, are also characterized by a new way of working focused on the employee advisory role and a unique customer experience. Total number of branches amounted to 114 at the end of 2022, and total number of self-service devices amounted to 703.

I. Retail segment (continued)

During 2022 activities to improve the offer of housing and cash loans continued and a large national campaign for the promotion of housing loans was organized in the first quarter, and in the last quarter of 2022 for the promotion of cash loans with emphasis on digital submission of applications. Also, Erste Bank actively took part in the tranche of APN financing program for the purchase of real estate or construction of houses, for which Government of the Republic of Croatia approved subsidies up to half of the installment or annuity. Cooperation with the best credit brokers for housing loans on the market has been started. All the mentioned activities had an impact on the strong growth of new disbursement of housing loans by as much as 86% and the growth of the market share to 12.60% on 31 December 2022, which is increase of 114 basis points compared to 31 December 2021.

Also, in 2022 special focus is placed on building the financial health of clients through various activities in the sales network and through direct communication with clients. Purpose of these activities is to build clients' awareness of the importance of knowing their personal financial situation from various aspects and the importance of planning their financial future. In the sales network are conducted regular monthly activities of proactively contacting clients to advise them on investment opportunities. Through targeted communication on digital channels (e-mail, George), we actively worked to raise awareness among clients about the importance of creating a financial reserve for situations of unforeseen expenses, as well as for securing financial resources for the future/retirement. Indicators of financial health were defined as a tool to help clients and sales network in analysing the client's current financial situation and determining goals for the future. A customer opinion survey is underway to assess the suitability and applicability of such financial health counselling tool. During 2023 is planned development of the mentioned indicators and their application in the advisory process.

Erste Bank places a significant focus on ecologically responsible business, so for several years we have been offering more favorable conditions for housing loans related to the purchase and construction of real estate with high energy efficiency, the purchase and installation of equipment for the use of renewable energy sources (e.g. solar panels) and the purchase and installation of equipment to maintain and improve energy efficiency (e.g. thermal insulation). Also, from 2022 banking cards we produce and distribute to clients are made of recycled plastic.

Innovations in Retail segment

With the long-term goal of ensuring financial prosperity for clients, and providing new and improved services, George’s intensive development and enhancement has continued despite very demanding Euro project.

At the beginning of the year migration of digital users to George was completed and old local digital services netBanking and mBanking have been shut down. Migrated users got used to the new George platform which led to the growth of customer’s satisfaction index from 81.0 to 89.5 and application store grades rising from 4.4 to 4.7 on average in 2022 compared to 2021.

In addition to intensive involvement in the EURO project, also new products were developed on George in 2022. We introduced end-to-end custody and brokerage account opening, gyro account opening and at the end of the year a’vista savings account opening as one of the initiatives for vulnerable clients and a prerequisite for saving goals and money automation. Thus, the range of products available completely digitally on the George application has been further expanded, in addition to already available products such as opening current accounts, cash loans, term deposits, credit cards and partner products such as travel and health insurance and purchase and sale of investment funds. We also refreshed George's web and mobile overviews and optimized some process flows of banks and partners’ product sales in George store. One of the highlights was introduction of assisted sales in branches so tellers can now assist customers and contract George store products directly through George faster, fully digital and completely paperless. Approximately 32% of products contracted through George were done by teller assistance. In partnership with VIG we added visibility of contracted insurance policies to George (health, car and property insurance).

I. Retail segment (continued)

The trend of strong growth for the KEKS Pay application continued in the fifth year of its presence on the market. A record-setting 87,000 new users in 2022, predominantly clients of other banks, brought the total number of users to 317,000. 71% of these users refer to the clients of other banks, while 29% of them are clients of Erste Bank. The fully digital prepaid KEKS Pay account opening with the associated Visa card continued in a stable trend.

The number of opened prepaid accounts thus exceeded 40,000 which further enhanced the launch of a new functionality during the second half of the year - KEKS Kasica, i.e. savings. Almost 4,500 additional electronic money accounts (savings KEKS Kasica accounts) were opened in a short period, with very positive reactions from users.

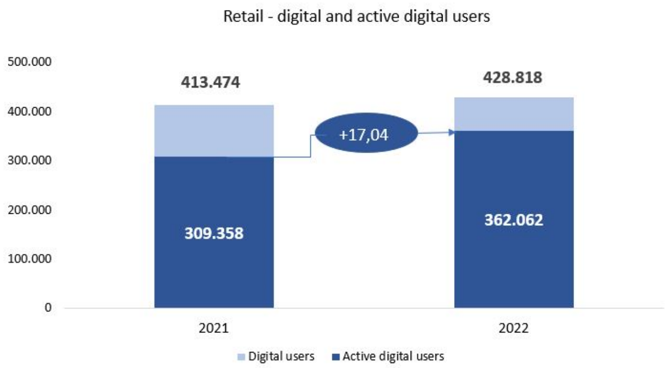
Thanks to the simplicity associated with KEKS Pay, all users were able to contract this product fully digitally and at the same time create prerequisites for establishing a long-term relationship and offering additional products. The innovative KEKS Pay režije service, in which during 2021 receiving digital bills and paying them without fees is possible throughout Croatia, has further expanded its scope and now offers more than 60 different issuers. At end of the year, in addition to more than 12,000 approved requests for digital bills, 65,000 of them had already been paid, with a clear growth trend from month to month.

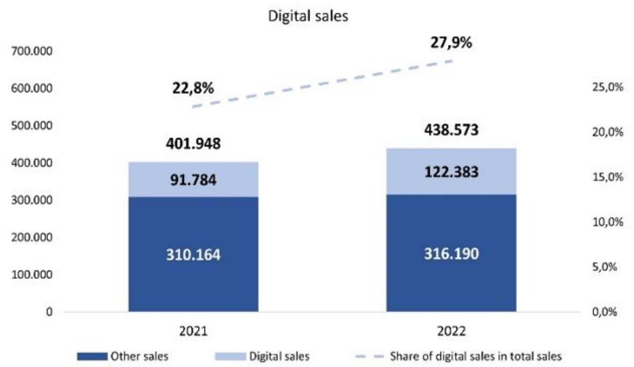
Increased acquisition activities towards legal entities in the past period have also achieved excellent results, so that KEKS Pay, with payment at more than 350 integrated webshops, can be considered a mainstream ecommerce payment method in Croatia. Activities in other areas, such as retail (implementation of KEKS Pay payments at more than 2,000 Konzum outlets), HoReCa channels, ticketing (Eventim, Entrio, Ulaznice.hr), public transport (Jadrolinija) and the like will certainly help the positive trend to continue.

Digital banking in 2022

During 2022 Erste Bank recorded an increase in number of digital channel users, as well as transactions and revenues related to transactions. At the end of 2022 Bank counts 428,818 digital users of George application out of which 362,062 are active users, which presents increase of 17% in the number of active digital users compared to 2021. 97% of active digital users are mobile users.

Strong increase was recorded in digital transactions and they have grown by 16% in numbers and 46% in volume. During 2022 focus was on digital sales. Share of digital sales in 2022 is 27.9% which is increase of 5.1% in comparison to 2021.





I. Retail segment (continued)

Contact centre

Contact center has an important role in communication with clients, and this role is becoming greater with the development of new communication channels and digitalization of business activities. In 2022 clients contacted the Bank for 737,593 times through the Contact Centre, what is 3.65% less than in 2021. Contact center agents handled 572,893 contacts or 5.36% more than in previous year. Out of this number, 77% of the contacts were resolved by agents over the telephone calls (inbound and outbound contacts), while the rest regards to communication by email, webchat, Viber, What'sApp, Facebook and video identification. Significant increase compared to 2021 refers to written communication channels, especially to webchat (36%) and email (14%). Video identification, in addition to contracting accounts and loans through George and issuing Keksica (Keks prepaid card) through Keks Pay, became possible for updating of clients' personal data and contracting custody and savings accounts through George. Through outbound sales campaigns from the contact center 91,898 clients were reached in 2022, which is 8.5% more than in 2021.

To improve quality of business activities, at the end of 2022, the chatbot project was implemented and the capacities for providing contact center services were increased. By implementing a chatbot, communication with clients via the webchat channel was partially automated, which reduced the workload by approx. 50% and resulted in savings in agent resources. In order to ensure enough agent resources in 2022, new offices were equipped at locations in Zagreb and Šibenik, so that the contact center now provides service from a total of 3 cities.

As part of the contact center, from the end of 2021, a remote investment advisory service was implemented, provided by a team of specialized employees centrally, to clients in all locations, using video communication (from branches or via George application). In scope of remote advisory service during 2022 a total number of 545 specialized investment advisory video meetings and 5,780 contacts related to other Bank products through various communication channels were handled. Through those meetings and contacts, over 3,800 products were realized (mostly cash loans and investment products). Clients are satisfied with the services provided, what is confirmed by the results of the conducted customer experience surveys.

II. Corporate segment

Corporate loans and deposits

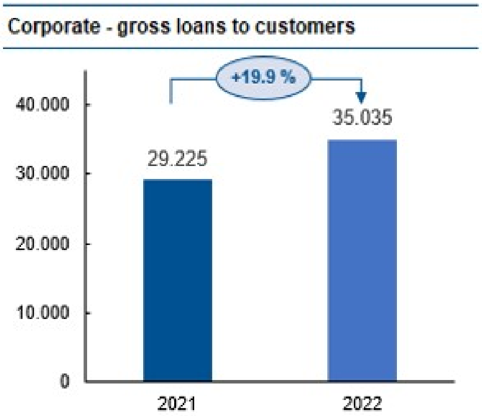


Chart 5: Corporate loans in HRK million

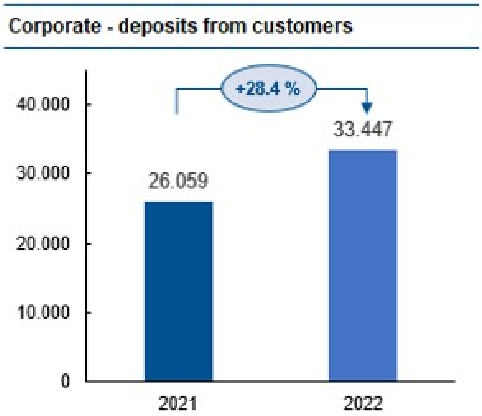


Chart 6: Corporate deposits in HRK million

Total portfolio of the Bank's gross corporate loans recorded growth in 2022 and amounted to HRK 35.04 billion as of 31 December 2022, which is increase of HRK 5.8 billion compared to previous year. The market share in corporate loans, per Croatian National Bank, amounted to 21.69% as of 31 December 2022 which resulted with growth of 110 basis points compared to 31 December 2021.

The corporate deposit on 31 December 2022 amounted to HRK 33.45 billion, which represents increase of HRK 7.4 billion compared to previous year. Corporate deposits reached market share in the amount of 20.43% as of 31 December 2022, which represents increase of 170 basis points in comparison to previous year.

Focus on corporate clients in 2022

The business that includes all segments of business entities, was marked to the greatest extent by the preparations and implementation of changes in the extensive project of the transition to the euro. In addition to the internal process of adapting business processes and accompanying documentation, continuous support was provided to clients through education, professional support and advance cash supply in order to simplify the transition to the new local currency. On the other hand, the business of clients, where the consequences of the pandemic crisis were still felt, was additionally affected by the war in Ukraine. Through intensive cooperation with special financial institutions, efforts were made to mitigate the negative consequences of the same, through the offer of guarantee instruments with 50% - 90% coverage.

In accordance with the Bank's strategic guidelines, which have as their primary goal the long-term sustainable business of the client and generally socially responsible business, two key concepts were implemented this year - the Financial Health and compliance with ESG regulations. For the first time in the Croatian market, the concept of Financial Health provides clients with better understanding and transparency in the credit rating, while the implementation of ESG regulations lays additional foundations for a long-term sustainable economy. Continuing the focus on process optimization and automation, a number of projects were launched this year that will enable simpler and more modern access to the bank's products and services for business entities in the coming years.

II. Corporate segment (continued)

Initiatives and projects

The most significant project in 2022 was the migration project to the new domicile currency – the euro. The change affected all aspects of business and almost most business processes. In addition to preparing the internal system itself, it was also necessary to support the entire sales network in the transition period and clients who were preparing their business for the new currency. Intensive project activities included adaptation of the internal system and accompanying documentation, as well as timely education and information of clients. In addition, in order to prepare business entities for the 14-day period of dual circulation of the euro and kuna, the Bank carried out a process of pre-supplying its clients. The pre-supply process started in the last quarter of the year, and a total of 4,138 clients were included in the pre-supply.

In 2022, the Financial Health tool was implemented. This made Erste Bank the first bank on the Croatian banking market to offer its clients such a digital tool. Through the aforementioned tool, the bank's clients are enabled to see their credit rating in the Bank and key financial indicators, and it is available through NetBanking and mBanking. In addition to an insight into the current credit rating in the Bank, clients are also shown a comparison of their rating with other Bank clients from the same industry, the historical trend of the rating and a basic explanation of the indicators for rating calculation. Clients gave this approach extremely high marks in the segment of user experience and satisfaction.

In 2022, intensive cooperation with special financial institutions on guarantee instruments continued with the aim of mitigating the negative consequences of the COVID-19 pandemic and the crisis caused by the war in Ukraine, especially with the European Investment Fund (EIF), the Croatian Bank for Reconstruction and Development (HBOR) and HAMAG-BICRO.

Special emphasis this year was on EIF's guarantee instrument EGF (European Globalisation Adjustment Fund for Displaced Workers). During the year, the available amount of the EGF portfolio guarantee of EUR 350 million was used almost entirely, making Erste Bank one of the 5 financial institutions at the EU level with the highest utilization of this instrument. As a result of the increased demand for guarantee instruments, the process of contracting new instruments that will be available in the coming period has been started. The Bank is among the first 3 institutions at the EU level and the first in Croatia to contract 3 new guarantee instruments with the EIF as part of the Invest EU program to encourage investments in the areas of sustainability, innovation and digitalization and the cultural and creative sector, with a maximum guarantee volume of EUR 50 million.

The Bank also continued cooperation with HAMAG-BICRO and HBOR through the use of existing guarantee instruments, which remain open even in 2023. An agreement was signed with HBOR on a portfolio insurance policy for exporters affected by the crisis in Ukraine in the amount of EUR 20 million. As part of the National Recovery and Resilience Plan (NPOO), negotiations have begun with HBOR on a guarantee for medium capitalized (mid-cap) and large clients, and with HAMAG-BICRO on an interest subsidy with a guarantee for small and medium clients.

By signing contracts and using the aforementioned guarantee instruments, the Bank, in accordance with its strategic guidelines, provided continuous support to individual business sectors, especially those most affected by the pandemic and crisis in Ukraine. The result of this is that in 2022, about 60% more transactions were approved with guarantee instruments compared to 2021, which itself was a record for the use of guarantee instruments.

In order to ensure more favorable lending conditions for clients, new framework agreements were also signed with HBOR for investment loans in the total amount of EUR 50 million and NPOO interest subsidies for the private and public sector.

During 2022, the approval of binding and non-binding letters of intent for the financing of projects co-financed by EU grants was intensified, and in this context the Bank also actively participated in consultations with ministries that published tenders as part of the NPOO and consulting firms that helped clients with applications to and tenders.

II. Corporate segment (continued)

Digital banking in 2022

The number of business entities which use Erste NetBanking service in 2022 increased by 7.6% compared to the previous year. The number of business entities which use Erste mBanking service increased by 23.8%.

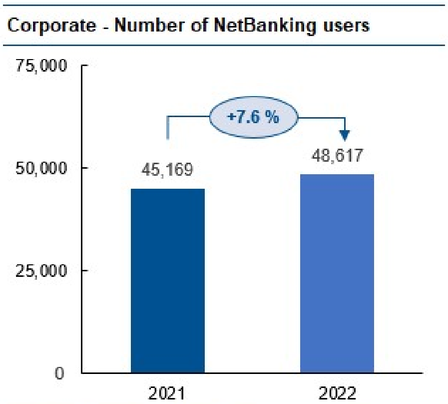


Chart 7: Number of NetBanking users - Corporate segment

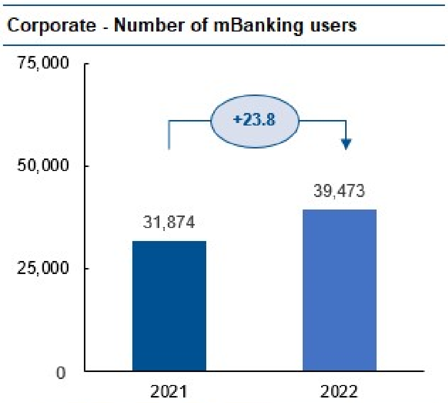


Chart 8: Number of mBanking users - Corporate segment

III. Macroeconomic indicators

Economic activity posted impressive rebound throughout 2021, with GDP expanding at 13.1% pace, thus showing full V-shape recovery. While obviously at more moderate pace, thus far 2022 is looking quite impressive as well. Year had a strong start with growth rates in high single-digits (1Q GDP 7.8% y/y; 2Q 8.7% y/y), supported by lively domestic demand and strong external demand backing (complemented with the normalizing tourism in pre-season). Going into 2H22, we saw expected deceleration (3Q GDP 5.2% y/y), mainly as private consumption footprint moderated and further tourism normalization had more limited potential amid higher base. Investments and exports demonstrated ongoing strong dynamics. On a FY scale, GDP expanded by 6.3% in 2022.

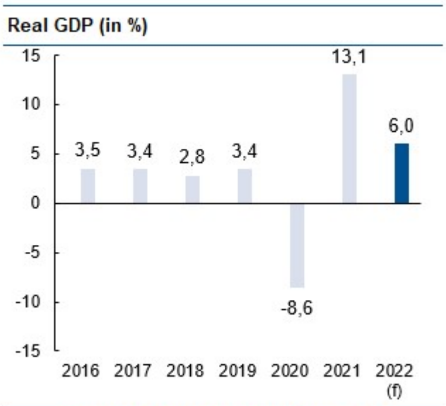


Chart 9: Real GDP (in %) 2016 - 2022

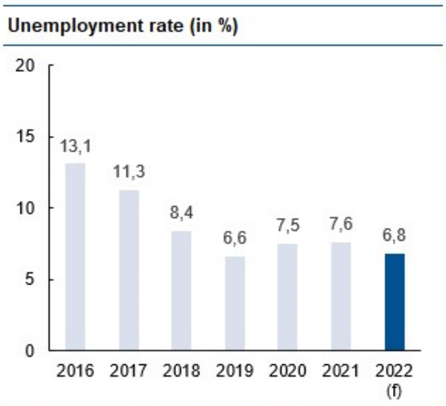


Chart 10: Unemployment rate in Croatia 2016 - 2022 per ILO definition

Current account, after maintaining positive developments in recent years, moved into neutral zone, mostly reflecting depleted tourism-related revenues. As economy recovered, especially tourism, CA position improved and reverted into solid green in 2021 – however, rising pressures on the imports side, both from real imports growth and inflation boosting nominal one, are pushing the balance back into mild negative area, as already seen in 3Q22 figures.

Following average inflation print of 2.6% in 2021, increasing energy and food pressures, coupled with supply-side bottlenecks, and the war in the Ukraine, sparked second-round effects and pushed the inflation on the upward trajectory in 2022. CPI moved deeper into the double-digit region, hitting highest level at 13.5% y/y in November, before marginally subsiding in December and wrapping up FY22 average at 10.8% mark. While the uncertainty remains high, the baseline suggests some easing on the supply side, as despite ongoing volatility, the energy/commodity side showed some normalization and supply-chain constraints are somewhat easing. On top demand side pressures should fade as economy moves towards stagnation.

III. Macroeconomic indicators (continued)

After one-off pandemic deviation from the fiscal consolidation course, Croatia returned within the Maastricht boundaries already in 2021, as the budget gap landed at 2.6% of GDP, thus outperforming both expectations and the official budgetary framework and allowing public debt to subside below 80% of GDP. 2022 fiscal outcome should bring further improvement as budget gap is expected closer to 1.5% of GDP mark. However, this year is projected to bring some loosening towards 2.5% of GDP, owing to weaker growth and support to the economy, however, still remaining in the comfortable zone. In addition, news on the rating side were favorable, with Fitch delivering one notch upgrade to ‘BBB+’, while S&P and Moody’s went for two notch upgrade - all 3 rating agencies set the outlook at stable. Croatia is now positioned deep within the investment grade region, with euro adoption boosting rating profile.

	2016	2017	2018	2019	2020	2021	2022 (f)
Nominal GDP (HRK, bn)	355.9	376.8	397.7	418.6	379.7	439.6	507.6
Nominal GDP (EUR, bn)	47.2	50.0	52.8	55.6	50.4	58.3	67.4
Real GDP (growth y/y, %)	3.5	3.4	2.8	3.4	-8.6	13.1	6.0
CPI (y/y, average %)	-1.1	1.1	1.5	0.8	0.1	2.6	10.8
Current account balance (EUR, bn)	1.1	1.7	0.9	1.6	-0.3	1.8	0.0
Current account balance (% of GDP)	2.3	3.4	1.8	2.8	-0.5	3.1	0.1
Foreign debt (EUR, bn)	44.7	43.5	42.6	40.3	40.7	44.6	47.3
Foreign debt to GDP (%)	94.6	87.1	80.7	72.5	80.8	76.5	70.1
Loc. Curr./EUR average	7.5	7.5	7.4	7.4	7.5	7.5	7.5
Unemployment (%, ILO definition)	13.1	11.3	8.4	6.6	7.5	7.6	6.8

[1] forecast
Source: CBS, CNB, Erste&Steiermärkische Bank d.d.

IV. Financial markets

Money market

The year 2022 was marked by the war in Ukraine and a strong rise in prices at the global level. Accordingly, most central banks (FED, ECB, SNB...) in the world reacted by raising interest rates in order to reduce inflationary pressures. With that, the era of cheap money came to an end and the world found itself on the brink of recession. Croatia ended the year by joining the Eurozone and the Schengen Area, which means that on January 1st, 2023. it entered the group of fully integrated European states. The excess liquidity in the banking sector at the end of the year amounted to HRK 119 billion, which is an increase by HRK 47.3 billion compared to the end of 2021 and was mostly caused by the reduction of banks' required reserves. In the domestic banking market, the CNB intervened twice in March by selling EUR 315 million, keeping the exchange rate stable after the escalation of the war in Ukraine. Interest for regular weekly repo operations was weak, only HRK 770 million at an interest rate of 0.05%.

Deposits with maturities ranging from one day to 3 months were traded on the interbank market, where the average HRK rate was between 0% and 0.36%.

Yields on treasury bills of the Ministry of Finance have increased compared to 2021. Yield on the 91-day kuna bill is 0.08%, on the 182-day bill 0.10%, and on the 364-day bill 0.20%. The yield on the 364-day Euro FX Treasury bill rose by 15 basis points and was issued at 0.10%. The yield on the 364-day foreign currency treasury bill increased by 10 basis points and was issued at -0.05% in the middle of the year. Aggregated total debt through auctions of treasury bills decreased by HRK 3.67 billion.

FX market

During the first quarter of 2022, the pressures on the depreciation of the kuna against the euro increased, mainly due to the growth of geopolitical uncertainty. The euro strengthened against the kuna from 7.52 to 7.57. In order to alleviate the weakening of the domestic currency as part of the policy of maintaining exchange rate stability, the CNB intervened on the foreign exchange market on three occasions in March by selling foreign currency to commercial banks in the total amount of EUR 385 million, of which one intervention was outside the auction.

At the auctions, were sold EUR 171 million at 7.5625 and EUR 144 million at 7.5671. With the beginning of the tourist season, slight appreciation pressures on the domestic currency began. Thus, the exchange rate of the kuna against the euro at the end of August was 7.50 EUR/HRK. The Council of the European Union on 12th July adopted the Decision on the adoption by Croatia of the euro on 1st January 2023 determining a fixed conversion rate between the euro and the kuna at: 7.53450 kuna per 1 euro. The easing of appreciation pressures during the summer months of this year was contributed by occasional increased corporate demand for foreign currency, particularly expressed in the energy sector due to more expensive raw materials and energy sources. In addition, participation in the European exchange rate mechanism and the expected introduction of the euro further anchored market expectations, so there was no need for CNB interventions on the foreign exchange market. The end of the year brought a slight depreciation of the local currency to the exchange rate of 7.55, so that the euro and kuna would meet at the end of the year at a value of 7.5345.

Capital market

In 2022, a slightly increased dynamics of corporate bond issues was notable. However, despite some new Issuers, Republic of Croatia remained the most active one in terms of volumes.

2022 was relatively active year in terms of Government financing through bonds on the domestic market. Three bonds were issued in total amount of EUR 2.2 billion. The Republic of Croatia has entered the domestic bond market twice with the aim of refinancing maturing domestic bonds. In February, a new 8-year bond of EUR 1 billion was issued, while in July a 4-year bond in amount of EUR 400 million, and 10-year bond in amount of EUR 800 million.

IV. Financial markets (continued)

The Bank participated as one of the Joint Lead Managers in the above mentioned Government bond issues.In the segment of corporate issues, the Bank participated as a Joint Lead Manager on the first corporate domestic bond issue of Agro Invest Group in the total nominal amount of HRK 170 million with the fixed annual interest rate of 3.50%, and with amortizing principal repayment and final maturity in 2029.

The Bank also participated in July as a Sole Lead Manager on the first Sustainability-Linked Bond of Meritus ulaganja d.d. on the Croatian market, which once again confirmed its status as one of the leaders of new trends on the domestic capital market. The bond related to sustainable business was issued in amount of EUR 40 million, with fixed annual interest rate of 4.25% and with bullet principal repayment in July 2027.

The Bank is continuously ranked among the leading arrangers of debt securities in the Republic of Croatia, in 2022 with 21.55% of market share (according to Bloomberg), thereby confirming its strategic orientation to support the development of capital markets improving primary market environment.

In the respect of bond issuance on the international market, within Group Markets division matrix organizational structure for origination business for Serbian, North Macedonian and Montenegrin issuers, the Bank has successfully participated in the 10-year Eurobond transaction of Republic of Croatia in the total nominal amount of EUR 1.25 billion.

Debt securities market

The past year was very challenging for all participants in the debt securities market. Central banks around the world were forced to initiate a restrictive monetary policy to tame inflation, which exceeded the expectations of all investors, as well as the heads of central banks themselves. Accordingly, the yield of the ten-year bond of the Republic of Croatia ranged from 2.60% to 4.70%.

The rise in reference interest rates forced investors to change their strategy, so we witnessed a more conservative bond investment policy and significantly changed expectations about the terminal range of reference interest rates. Given that several favorable political decisions were made in favour of the Republic of Croatia, primarily entry into the Eurozone and the Schengen area, investors used every increase in yield to acquire additional amounts of Croatian debt. The spread in yield between ten-year bonds of the Republic of Croatia and the Federal Republic of Germany during 2022 was between 135 and 250 basis points, but a significant compression in yields occurred during the last two months of 2022.

Although the turnover of Croatian bonds was not at an enviable level during 2022, we expect that the liquidity situation could improve during 2023, because by joining the Eurozone, Croatia will become more interesting to a wider range of professional investors, as well as retail clients.

Equity markets

The year 2022 on the Croatian capital market began in a positive tone until the start of the Russian aggression against Ukraine in mid-February. The negative sentiment that affected all global capital markets without exception lasted on the Zagreb Stock Exchange with rare positive days until the end of the year. The Crobex stock index ended the year in the minus of 4.78% (plus 19.27% in 2021). Compared to the stock indices from the region and the world, this represents a minimal drop, but compared to the maximum levels from the beginning of the year, the minus is more significant. The last trading day in 2022 Crobex ended at 1,979.88 points (2,079 at the end of 2021).

IV. Financial markets (continued)

Stock turnover on the Zagreb Stock Exchange amounted to HRK 5.51 billion, which is almost 18% more than the previous year. At first, this information may create the illusion of more active trading and increased liquidity. Unfortunately, the increase in turnover is solely the result of several significant block transactions with the shares which are or will be soon delisted from the regulated market.
Despite an extremely challenging year, ESB successfully maintained its 2nd position and achieved an increase in market share from 14.1% to 15.14%. Overall, looking at the volumes, companies such as Hrvatski Telekom, Valamar Riviera, Podravka, Adris, Atlantska plovidba and Atlantic Grupa continue to dominate among the more liquid shares, with a few surprises such as HPB and a new name from last year SPAN. Among the block transactions, the largest turnover was achieved by the shares of Hrvatski Telekom, Tankerska Next Generation and Sunce Hoteli.

Considering the negative sentiment this year, there were no new share issues, takeovers, and attractive capital increases, and as a positive example we can single out the launch of the first domestic ESG bond by Meritus Ulaganja in which the ECB played a significant role.

If we look at the stock indices in the region, they fared significantly worse than Crobex. Thus, the Slovenian SBITOP ended the year in the minus of 16.89% (plus 40% in 2021), the Romanian BET minus 10.70% (+33% in 2021), the Austrian ATX minus 19.03% (+39% in 2021), while the German DAX ended 2021 with minus 12.35% (+16% in 2021).

Custody groups

The year 2022 was marked by the software development for the custodial business in order to increase process automation and business efficiency. The foundations laid in the previous year resulted in a 46% increase in the number of securities settlement transactions, which is why the development of the IT system proved to be an excellent decision.

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

The last quarter of 2022 was largely marked by the preparation of the system for migration from HRK to EUR, in which significant resources were invested, thanks to which the transition went smoothly and within the expected deadlines and smooth operation was enabled with the first working day of 2023.

V. Risk management

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

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

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

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

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

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

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

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

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

VI. Erste Bank AD Podgorica

In year 2022 which was dynamic, intense and full of challenges, Erste Bank AD Podgorica made a pre-tax profit of EUR 13.44 million which is 76% more compared to the previous year. Profit after tax is EUR 11.59 million with a ROE of 11.3%, and a ROA 1.7%.

In December 2022, the acquisition and merger of S-leasing d.o.o. was successfully completed. Erste Bank AD Podgorica became the first bank on the Montenegrin market to offer leasing to clients.

Total operating income was achieved in the amount of EUR 32 million, which is 11% higher compared to 2021.

Net interest income was in the amount of EUR 24.57 million and by 5% higher compared to the previous reporting period mostly due growth of the securities portfolio and changes in the structure of deposits. Net interest margin increased from 4.55% at the end of 2021, to 4.62% at the end of 2022.

Net fee and commission income amounted to EUR 6.55 million and increased by 29% compared to the end of 2021. Erste Bank AD Podgorica recorded growth of volume and number of transactions in payment and card business with an increase in the share of net income from fees and commissions in operating income from 17.64% at the end of 2021 to 20.44% at the end of 2022.

Risk costs was positive in amount of EUR 0.74 million and the biggest impact was release of provisions of corporate clients. Credit risk cost for balance exposures amounted 0.16% and was positive significantly lower compared to the end of 2021, when it was negative and amounted 0.97%. NPL coverage was 107.1% at the end of 2022, which is an increase compared to the end of 2021 when it was 94%. NPL at the end of 2022 amounted to EUR 26.7 million which is a decrease of EUR 5.5 million compared to 2021. Main driver of decrease is the write-off in retail segment and the decrease of corporate default clients exposure.

Operating expenses were recorded in the amount of EUR 19.01 million and compared to the previous year they were increased by 12% under the influence of inflation, regulatory costs, growth and development of the bank and especially from the influence of perex increase. In 2022, Erste Bank AD Podgorica paid special attention to the financial health of employees. As part of the WeShare program, employees who met the conditions for participation received 16 shares of Erste Group Bank AG. In the conditions of inflation, with the aim of additional improvement Erste Bank AD Podgorica made decision to correct the salaries of employees. This influenced the increase of the Cost/Income ratio to the level of 59.34%, while at the end of 2021 it was 58.86%.

At the end of the year 2022 total assets amounted to EUR 752 million, which compared to 2021 was an increase of 12%. Net loans to customers amounted to EUR 456.4 million and were by 7.1% (EUR 30.4 million) higher compared to end of 2021, of which EUR 250.7 million related to retail lending and EUR 205.7 million related to corporate loans. Total customer deposits increased by EUR 52.4 million in 2022 and amounted to EUR 511 million at the end of the year, of which retail deposits amounted for EUR 231.3 million, and corporate deposits for EUR 279.7 million.

Disbursement of EUR 74.15 million was realized in Retail sector in 2022 through more than 9 thousand loan applications, which is EUR 21.1 million more disbursement than the previous year (39.76%), or 1.7 thousand loan applications (22.15%). Retail loan portfolio increased by EUR 14.57 million (5.82%), and at the end of 2022 an amounted to EUR 264.90 million. Cash loans had the largest share in total retail loans (61.87%), followed by housing loans (33.24%). As for the market share of total retail loans, there was a slight decrease and it amounted to 16.43% at the end of November 2022.

The number of total clients in retail sector amounted to 117.8 thousand, or 2.84% more compared to the end of the previous year. Research on the quality of service provided by Erste Bank AD Podgorica customers shows that a better result was achieved compared to earlier research, quality index increased from 9.40 to 9.54.

VI. Erste Bank AD Podgorica (continued)

The total portfolio of retail deposits increased by EUR 28.38 million (13.98%) during the previous year. Demand deposits recorded significant growth and increased to EUR 179.9 million (29.53%), which indicates customer confidence towards Erste Bank AD Podgorica. Due to the special treatment of retail clients from Russia and Belarus, there was a 9.70% drop in deposits of non-resident clients and they amounted to EUR 42.51 million.
In retail resident deposits, Erste Bank AD Podgorica strengthened its market position with a share growth of 10.69% at the end of November 2022.

In the core Corporate segment which is related to financing of private companies, for the first 11 months of 2022 was an increase in market share by 125 basis points, from 11.91% to 13.15% as a result of Erste Bank AD Podgorica portfolio growth of 18.49% compared to market growth of 7.26%. The total corporate loans market share decreased from 13.10% to 12.71% due to the fact that 43% of the market growth refers to the segment of non-resident companies in whose financing Erste Bank AD Podgorica does not participate.

The growth of corporate clients deposits in the period December 2021 - November 2022 was 16.5%. In the structure of deposits of corporate sector, 90% are demand deposits. Market share of total corporate deposits decreased by 142 basis points from 10.94% to 9.52%.
During 2022, the number of clients of public companies and leading retailers increased in the Corporate sector, which contributed to the growth of non-interest income of 17.41% in 2022.

At the end of 2022, S-leasing was merged with the Erste Bank AD Podgorica within the Corporate sector, which created the preconditions for further growth of this segment given the larger client base that the Erste Bank AD Podgorica has.

Through numerous projects in the past year in the corporate sector, progress has been made in the direction of automation and digitalization of processes, client acquisition, improvement of the credit process, monitoring delays, etc. This will help improve the growth and efficiency in the coming year.

The achieved result of Erste Bank AD Podgorica can be considered significant bearing in mind that it was achieved in a year of specific circumstances and under the burden of political and geopolitical uncertainty. Attention was focused on preserving the client base and improving the quality of service. Erste Bank AD Podgorica operates through a network of 17 branches throughout Montenegro and serves more than 122 thousand clients at the end of 2022.

VII. Erste Card Club d.o.o.

Erste Card Club Group as of 31 December 2022 achieved net profit of HRK 150.7 million (Erste Card Club Group consisted of: Erste Card Club d.o.o. (hereinafter ECC) and Erste Card d.o.o., (hereinafter EC SLO), however in June 2022, 100% EC Slo business shares were sold). Recorded increase of HRK 19.4 million compared to 2021 is a result of realized income from EC Slo sale, lower risk provisions and growth in turnover made by credit cards due to consumption increase and strong touristic season. ROE was 11.1%, which represents an increase of 4.2 basis points, while ROA was 6.0%, which represents an increase of 26.5 basis points compared to 2021.

Net interest income totals HRK 109.5 million with a decrease of 21.4% compared to 2021, mainly due to EC Slo sale, regulatory changes related to interest rates and decrease of income from cash advance. Positive impacts come from optimisation on interest expenses. Net commission income totals HRK 231.2 million representing a decrease of 6.6% compared to 2021 due to EC Slo sale, however on ECC standalone level, an increase has been achieved regarding the increased turnover made by credit cards, mostly due to strong growth of acquiring volume in the amount of 33%. Merchant service commissions are continuously under market pressure. Net trading result amounted to HRK 1.7 million in 2022, while HRK 2.4 million in 2021.

General administrative expenses amounted to HRK 232.6 million in 2022 with a decrease of 8.3% in comparison to 2021 due to EC Slo sale, which reflected in the reduction of personnel expenses by 19.6%. Other administrative expenses are higher by 0.8% when compared to 2021 as a result of higher EURO project costs. Also, the costs of the reward program and cost related to the renewal of cards are higher. Depreciation costs are lower by 21.4% or HRK 5.9 million.

Other operating result in 2022 amounts to HRK 31.4 million, which mostly refers to EC Slo sales income.

Risk cost in 2022 ended up positive with release of HRK 46.4 million, as well as in 2021 with an amount of HRK 14.1 million. The latter is a result of portfolio sale and lower new NPL inflow. Nonperforming loans coverage ratio is increased when compared to previous year to 134.0%, while 114.9% in 2021.

Total ECC consolidated assets amounted to HRK 2,301 million as of 31 December 2022. Loans and advances to customers gross recorded a decrease of 2.5% compared to 2021 as a result of decreased revolving portfolio in favour of debit cards on the market and secondly, EC Slo shares sale.

Total liabilities at the same time declined compared to 2021 due to loan repayment to Erste Bank AG Vienna. Total equity amounts to HRK 1,412 million with an increase of 8.5% compared to the 2021 due to included achieved net profit. In 2022 there was a dividend pay-out in the amount of HRK 39.4 million.

General information

Performance in 2022 was marked by the adjustment of the entire business to the introduction of the euro. With the aim of ensuring simplicity and greater transparency, regular customer briefings have already begun as of August, i.e. customers have been regularly informed on dual price display of all fees, parameters of consumer lending (amount of loans, instalments or annuities), amounts on cost notices, as well as services available in the ECC mobile app. A new version of the mobile app has also become available to users, offering the possibility of converting all amounts from HRK into EUR and vice versa.

Based on the decision of the Management Board of Erste&Steiermärkische Bank d.d., Olja Brkljačić, Head of the Accounting and Controlling Division and Ivan Morović, Head of the Membership Sales Division, both from Erste Card Club, were appointed procurators. They took up the post on July 1st 2022, when the term of office of the member of the Management Board Jurgen de Ruijter ended. Their appointment aims to support Management Board member Anita Markota Štriga, who became the director of the company on July 1st 2022, in developing and ensuring the business continuity of the company.

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

General information (continued)

In order to expand the offer for small retailers, entrepreneurs and craftsmen, a free ECC SoftPOS application was introduced for facilitating contactless card payments on Android phones. The app supports PIN-on-glass technology, which facilitates all types of contactless payments (Diners Club, Visa, Mastercard), including charge and instalment payments that require PIN authorisation. To enable small retailers to digitalise their business as easily as possible and thereby improve it, the ECC joined the “Digital Croatia” initiative launched by Visa.

To further confirm the focus on the environmentally sustainable business, the process of issuing cards on recycled or eco plastics for all credit cards brands in portfolio (Diners, Visa, Mastercard) has been initiated. In addition, in cooperation with AKD, the delivery of cards on paper and all other supporting materials (leaflets, brochures, envelopes etc.) certified by the FSC standard has begun. This label guarantees responsible forest management (tree planting, care and maintenance) in order to replace any wood harvested for paper production purposes.

In June, the sale of subsidiary Erste Card d.o.o. was concluded with Banka Sparkasse d.d. from Ljubljana, which in Slovenia has the right to operate with Diners Club cards. The purchase agreement was signed in October 2021, and with this transfer of ownership to the Sparkasse, Erste Card remains a part of the international Erste Group. Moreover, in 2022 Diners Club BH d.o.o. business shares were sold to the Sparkasse bank d.d. BH. Diners club credit cards’ performances in Slovenia and Bosnia and Herzegovina still continues under a sub-franchise agreement with Erste Card Club.

Due to the long-standing excellence of the Diners Club franchise business on the Croatian market, Erste Card Club was awarded the Franchise Brand Leader Award 2021 in the category of the longest-lasting franchise. This is the first and only award in the Croatian and regional market, which is awarded for franchising and its founders are Poslovni FM radio, Croatian Franchise Association FIP and Brending Akademija (Branding Academy).

Credit cards

ECC total number of credit cards as of 31 December 2022 amounted to 378,754 with net decrease of 3.4% compared to previous year as a result of regular activities regarding AML portfolio management and client identification. In 2022, total sales were achieved in the amount of 35,034 new credit cards, which is 6.7% higher than in 2021 year. 53% of new credit cards came through the digital sales channel by ECC mobile app (EMA) or GEORGE application.

Company’s credit card market share as of September 30th 2022 amounted to 22.80% (YE 2021: 22.79%). The total number of ECC clients as of December 31st 2022 amounts to 300,560 which represents a decrease of 0.7% compared to year 2021. The total number of ECC mobile application users amounts to 190,691 which is an increase of 27,163 users or 16.6% compared to year 2021. Continuous activities related to increasing the number of credit cards are focused on motivating existing as well as digital onboarding of new clients using EMA – ECC mobile app.

Total ECC issuing volume in 2022 increased by 6.6% YoY and amounts to HRK 7,487 million, with market share of 24.41% (decrease of 77 bps compared to 3Q2021). In the volume structure, the highest growth was recorded in charge transactions, and then the instalments volume, while cash advance was lower compared to year 2021, influenced by market trends in debit cards volume with a still significant share of cash payment transactions.

Total ECC acquiring volume increased by 33.0% YoY with market share of 16.51% (increase of 109 bps compared to 3Q2021). Higher volumes were mostly influenced by strong growth of Visa and Mastercard volumes due to a good touristic season and the growth in consumption. Total number of ECC transactions in 2022 exceeded 84 million with an increase of 25.7% compared to 2021.
Total number of ECC's EFT POS devices amounts to 20,787 as of December 31st 2021. Market share of EFT POS network increased to 21.66% as of September 30th 2022 (41 bps increase compared to year end 2021).

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

Erste&Steiermärkische S-Leasing d.o.o. (Erste Leasing) net loss in 2022 is amounted to HRK 8.2 million. Main reason are the increased provisions for legal issues. Return on equity (ROE) was -1.8%, which represents an decrease of 11 basis points, and return on assets (ROA) was -0.3%, which represents an decrease of 1.6 basis points compared to 2021.

Net interest income amounted to HRK 80 million, achieving a growth of 4.28% compared to 2021. Interest income represents the most significant share to the Company's result and refers to interest from finance lease, which amounted to HRK 108.5 million and are higher by 8.35% compared to 2021. Interest expenses increase by 21.7% to HRK 28.4 million in 2022.

Income from operating lease amounted to HRK 58.3 million and is lower by 10.5% compared to 2021 due to the decrease of operating lease in the portfolio.

The net trading result refers to FX revaluation of balance sheet, which amounted to HRK -18.3 million in 2022.

General and administrative expenses amounted to HRK 92.2 million and were lower by 0.8% compared to 2021 due to decrease of depreciation expenses as a consequence of decrease of operating lease portfolio.

In 2022, the Company's risk cost amounted to HRK 18 million, while 2021 year was still affected by the financial situation related to COVID-19 pandemic, and risk cost amounted to HRK 7 million of loss. NPL decreased by 6.1% to amount of HRK 75.3 million with NPL coverage of 70.9% (91.9% in 2021).

Erste Leasing concluded 5,368 new leasing contracts in 2022 with total value of HRK 1,210.7 million, with a market share of 15% as at 30 September 2022 according to the latest published data of the Croatian Financial Services Supervisory Agency (HANFA).

Total assets of Erste Leasing as of 31 December 2022 amounted to HRK 3,216 million, which represents an increase of 13% compared to 2021.Net finance lease receivables and other receivables slightly increased compared to last year and amount to HRK 2,899 million with a share of 90% in total assets.

Tangible assets amounted to HRK 219.7 million with a share of 6.8% in total assets and mainly relate to assets under operating lease. A decrease of 6.8% compared to 2021 has been recorded due to a lower finance volume in operating lease.

Total liabilities to credit institutions and customers as of 31 December 2022 amounted to HRK 2,670 million with a share of 83% of total liabilities and are on last year level. Other financial liabilities and other liabilities, which relate to received deposits and advances from customers for operating lease, follow the declining trend of operating lease in the portfolio.

Total equity amounted to HRK 415.5 million in 2022, is lower by 3% compared to 2021.

Non-financial Report

Non-financial Report

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

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

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

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

Implementation of the obligation of non-financial report

As already stated, Directive 2014/95/EU, which entered into the Croatian legislation at the end of 2016, stipulates the obligation of non-financial report for all companies with more than 500 employees. In this respect, the non-financial report of Erste Bank Croatia was issued as part of the Annual Report.

ECB’s non-financial report has been prepared in accordance with the Global Reporting Initiative (GRI standard: core option) Guidelines. As a minimum, the report covers the business, social and environmental responsibility of EBC.

Sustainable development goals

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

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

Analysis of material topics

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

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

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

Clients

Responsibility in business (SDG 1, 12)

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

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

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

Right to personal data protection

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

Employees

Diversity and equality (SDG 4, 5)

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

Training and skill development (SDG 4)

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

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

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

Society

Social banking (SDG 1, 11)

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

Financial literacy (SDG 4, 11)

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

Social responsibility (SDG 11)

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

Environment

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

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

Suppliers

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

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

Table 1: Analysis of material topics

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

Clients

Anti-corruption

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

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

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

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

The Bank does not tolerate behaviours that go against the current rules and regulations, Bank's legal acts and ethical principles. Based on the Whistleblowing programme as a part of the **Whistleblowing Policy**, all persons employed in the Bank, regardless of the legal basis of their work for the Bank, are urged to promptly provide information about any behaviour of other employees, clients or third parties that is not in compliance with the valid rules, regulations, Bank's legal acts or ethical principles. The Policy sets out the basic principles, the internal procedure for reporting irregularities, and provides for an efficient protection of people who report irregularities, that is, whistleblowers. The Policy is obligatory for all persons employed at Erste Bank Croatia, regardless of the legal basis of their work for the Bank, and applies to everyone in the working environment.
EBC continuously educates its employees with the aim of raising awareness of the importance of managing conflict of interest and preventing corruption, as well as acting in accordance with ethical standards. Furthermore, through training, the Bank tries to encourage employees to report irregularities such as fraudulent actions, violations of procedures and the Bank's legal acts.

In 2022 Bank employees were receiving regular training on topics related to conflict of interest, combating corruption and the principles of the Bank's Code of Conduct. A total of 2,659 employees were trained on combating corruption and conflict of interest, 182 employees were trained on the topic of combating corruption, while 2,420 employees were trained on the topic of conflict of interest.

Tax transparency

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

Tax transparency (continued)

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

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

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

Products and services

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

In 2022 the Bank initiated the process of establishing cooperation with businesses offering sustainable products and services, while adjusting the housing "EKO" loans available to residents, for purchasing, building or upgrading homes with the energy rating of A+, A and B. Such loans can be used to improve energy efficiency (by installing equipment for using renewable energy sources, interventions on property helping reduce energy consumption or installing thermal insulation in residential buildings). In 2022, almost EUR 160 million of EKO housing loans was arranged, which exceeded the goal set for last year. In addition, special offers and benefits in cooperation with home furnishing companies are provided for all clients interested in housing EKO loans without a mortgage. Also, a bond was agreed with the International Finance Corporation, used to finance EKO housing loans from 2021 to 2024.
In 2022 the Bank also initiated the process of defining the decarbonisation objectives and adjusting the guidelines accordingly for financing sustainable and green projects.

Last year, Erste Bank Croatia introduced debit cards made of recycled material, aiming to replace all existing cards by the end of 2026.

In addition to our internal processes, we are also trying to reduce use of paper in our business with clients, so we introduced digital account statements and various notifications, while enabling digital activation of products such as loans and savings.

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

Products and services (continued)

In 2022, the Bank continued to actively participate in subsidised residential construction programmes (POS) and subsidized housing loans programmes for the purchase or construction of real estate in cooperation with the Croatian Real Estate Agency (APN).

Changes in client behaviour and habits, technology and the regulatory framework continuously require adjustment of the existing business model and the role of individual distribution and communication channels. Branch offices are increasingly becoming centres for consulting and resolving more complex client requests, while clients are increasingly using digital services and self-service devices to perform transactions and resolve simpler requests. In 2022, activities in the branch transformation project continued, which in addition to a new visual identity, is characterised by a new way of working focused on the advisory role of employees and a unique user experience for clients.

In line with the strategic benchmarks of the Bank whose primary objective is to provide for a sustainable operation of clients in the long run and socially sustainable operation in general, two key concepts have been implemented this year – Financial Health and harmonisation with the ESG regulation. For the first time in the Croatian market, the Financial Health concept enables clients to achieve better understanding and transparency in the credit rating, while the implementation of the ESG regulation lays an additional foundation for a long-term sustainable economy.

The main objectives of the Bank in the ESG segment are to support its clients in monitoring and reducing their carbon footprint and generally in their transformation toward more sustainable business and funding of green, sustainable projects. To achieve these objectives, in 2022 we launched ESG training for our employees, initiated the process of defining a clear service model involving ESG for corporate clients, and processes of implementing and defining the guidelines and methodologies for green funding. Additional emphasis was placed on reaching the target 'green' volume (GIR), which was set at EUR 105 million in 2022 and was significantly exceeded.
As in previous years, the Bank continued implementing existing and securing new financial instruments by signing agreements with domestic and international financial institutions (HAMAG BICRO, HBOR, EIF, EIB, EBRD). Financial instruments come in the form of credit lines, guarantees and guarantee schemes, and are available to micro, small and medium-sized companies with the aim of facilitating access to financing to entrepreneurs.

In 2022 we continued with intensive cooperation with special financial institutions on guarantee instruments with the aim to mitigate the negative consequences of COVID-19 and the crisis caused by the war in Ukraine, especially with the European Investment Fund (EIF), the Croatian Bank for Reconstruction and Development (HBOR) and HAMAG-BICRO.

Late last year, the Bank signed a EUR 50 million guarantee agreement with the European Investment Fund (part of the European Investment Bank Group – EIB), as part of the InvestEU Fund to support the sustainability, innovation and digitisation of small businesses in Croatia and the development of the cultural and creative sectors. Since its arrival in Croatia, the EIF has signed more than 40 agreements with local commercial banks, thus supporting some 5,000 businesses and helping preserve 70,000 jobs. Thanks to a wide range of coverage, InvestEU will help Croatian SMEs and mid-caps to introduce more sustainable technologies and operational practices that are less harmful to the climate. EIF funding also supports innovation and digital transformation by improving access to funding for research and technology-oriented businesses. It will also contribute to the development of the cultural and creative sectors, the creation of new business ecosystems and their adaptation to current market challenges.
The Bank also continued its partnership with HAMAG-BICRO and HBOR through the use of existing guarantee instruments, which remain open in 2023. An agreement was signed with the HBOR on a portfolio insurance policy for exporters affected by the Ukraine crisis, worth EUR 20 million. As part of the National Recovery and Resilience Plan (NRRP), negotiations were opened with the HBOR on a guarantee for mid-caps and large clients, along with the talks with the HAMAG-BICRO on interest rate subsidy with a guarantee for SMEs.

By signing the contracts and using these guarantee instruments, the Bank provided continuous support to individual entrepreneurial sectors, and those most affected by the pandemic in particular, in line with its strategic guidelines. As a result, around 60% more transactions were granted with guarantee facilities in 2022 versus 2021, which was already a record-high year in the use of guarantee facilities.

Products and services (continued)

In order to ensure more favourable lending terms for our clients, we also signed new framework agreements with the HBOR for investment loans worth EUR 50 million, as well as NRRP interest subsidies for private and public sectors.

In 2022 we intensified the granting of binding and non-binding letters of intent for funding projects co-funded by the EU. In this context, the Bank also actively participated in consultations with the ministries that published tenders within the NRRP and with the consulting firms that assisted clients in applying to these tenders.

The Bank operates in accordance with Responsible Business Principles which aim to ensure adherence to rules relating to funding, i.e. the provision of services in the areas of energy, defence, arms industry and other sensitive industries. Although the Bank does not focus on financing such industries, acting in line with principles ensures that business activities in these industries are conducted in a manner that is responsible towards clients and society in general.

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

Digitalisation

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

The KEKS Pay app, which was offered to users by EBC at the end of 2018, registered more than 317,000 users at the end of last year. The app is intended for everyone, regardless of their bank of choice, so 71% of users are clients of other banks, while the remaining 29% have an account with Erste Bank Croatia. The KEKS Pay app initially started providing the service of sending and receiving money between friends, but it developed a number of new services since then, including the purchase of mobile phone vouchers and payment of tolls and parking, making donations, paying in web shops and stores that support KEKS Pay, among others. The latest innovation - receiving and paying digital utility bills has been used by an increasing number of users each month. Last year, intensive work was done to expand the scope of this functionality, so now it is offered by more than 60 different companies and local self-government units. In the second half of 2022, another new feature was added - called KEKS Kasica, or savings feature that proved quite popular among users.

After its introduction in 2020, the pan-European digital platform George continued to develop over the years, providing new, innovative features to its clients. Apart from bringing a better mobile and online banking user experience, George also represents a platform for innovation, so new features are being added and with each new update the platform becomes smarter, more advanced and intelligent. In addition to the already available products, such as opening of current accounts, cash loans, term deposits, credit cards and other, during 2022, developing new products in George was in focus. Clients were offered such services as opening brokerage and custodial accounts or gyro accounts and savings-related products. One of the most important new features that helps increase the speed of arranging new services, contributes to digitisation of services and reduces the use of printing paper is so-called “assisted sale at branch offices", where tellers in branch offices can arrange products for clients through George. in 2022, the app also saw certain adjustments in its interface and the conversion to the new currency. By the end of 2022, George had more than 362,000 active users per month.

Continuous upgrading of EBC’s websites, which in 2022 also followed the needs of clients with all the necessary information should be mentioned too.

Client experience and contact centre

Erste Bank Croatia places great attention on client experience and aims to be a leading bank in terms of consumer protection and excellent customer experience. Providing excellent, simple, accurate, transparent and timely service has been set as a strategic objective. In order to achieve this, the Bank operates beyond the framework of what is legally prescribed and, for example, EBC enables the transparent and simple submission and resolution of complaints, with more than 70% of complaints solved within three working days.

Client experience and contact centre (continued)

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

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

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

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

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

Changes in client expectations, behaviour and habits, the technological revolution and regulatory frameworks inevitably require a redesign of the current business model and the role of branch offices as distribution channels for products and services of the Bank and its partners, which is why the network has gradually transformed. The bank network transformation project has been ongoing since 2018, and according to the service model, 16 branches of the Bank have been refurbished so far, with some of the branches redesigned for the first time according to the Branch Evolution concept, which is an upgrade of the service model for branch redesign. Other business premises of Erste Bank Croatia have also been reconstructed, and the plan is to continue redesigning branch offices according to the new concept.

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

EBC’s long-term focus on excellent client experience in all contact points with the Bank has also been recognised by clients, as is shown in the CXI (Customer Experience Index) results, according to which EBC has been ranked first in the market for years with a significant advantage over other banks. Such a result proves that Erste Bank Croatia has been communicating with its clients successfully, timely and transparently in the uncertain situations we have encountered over the past few years.

Right to personal data protection

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

a) GDPR (General Data Protection Regulation)

Application of the General Data Protection Regulation has brought new definitions and clearer obligations with regard to data protection and the right of every citizen to security and privacy. More specifically, the regulation added value to EBC in terms of its ability to get closer to its clients through transparent operations, using the GDPR legal framework as an additional opportunity and motive to raise the level of security of the entire security system. The GDPR introduced new definitions, described existing concepts in more detail, strengthened the rights of natural persons and one of the objectives was to raise information security to the highest level in the area of accessing and managing personal data. In relation to the processing of individuals' personal data, EBC is continuously working on improving relevant business processes. The Bank achieves a high level of personal data protection and ensures that clients, employees and contractors can excercise their rights in accordance with positive legal regulations by following best practices and industry standards of information and communication infrastructure management, transparent communication and other technical and organizational protection measures.

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

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

In 2022, EBC again successfully completed the PCI DSS re-certification, thus confirming the Bank's compliance with this complex international payment card security standard. The compliance, as well as the review of the PCI DSS scope, are extremely demanding and involve continuous collaboration between technical, business and security teams on compliance with the standard's requirements.

Employees

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

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

Diversity and gender equality and prevention of discrimination

EBC has a total of 2609 employees[1], of whom 1899 are women, while 710 are men. Among the Bank's workforce, employees aged 30 to 50 predominate.

Table 2: Employee structure

TOTAL		< 30 YEARS OF AGE		30-50 YEARS OF AGE		>50 YEARS OF AGE	
women	men	number	%	number	%	number	%
1,899	710	326	12%	1,925	74%	358	14%

Women account for 73% of employees while the remaining 27% are men. Regarding women in managerial positions, throughout 2022 their share remained at a similar level as in the previous year. At top management levels, which include the Supervisory Board and Management Board, women account for 17% while at the level of the Management Board and B-1 level, women account for 36% of managers. At the B-1 level, women account for 43% of management while in middle and lower management positions, they account for 64%. The Bank's goal is to maintain the positive trend from the past few years going forward, and continue promoting women leaders so that the percentage of women leaders are stable, growing over time.

The average age of the Bank's employees is 39.8 years, while the average age of employees in management positions is slightly higher at 45.4 years.

Table 3: Structure of managing bodies

SUPERVISORY BOARD	women	men			
	29%	71%			
MANAGEMENT BOARD	women	men	<30	30-50	50>
	0%	100%	0%	20%	80%
B-1	women	men			
	43%	57%			
B-2, B-3, B-4	64%	36%			
Total Top mgmt, Supervisory board, Mgmt. board	17%	83%			
Total Top mgmt	36%	64%			

[1] The expressed figure is the total number of active employees, regardless of whether they work full-time or part-time.

Diversity and gender equality and prevention of discrimination (continued)

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

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

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

Long-term goals concerning the demographic profile of top managers have been set at the level of the entire Erste Group, and they are defined for a period of five years and monitored in two steps. When it comes to the proportion of women among top managers (Management Board and B-1 level) in EBC, the goals are: 34% by 2023 and 41% by 2025. Data from 2021 showed that women accounted for 33% of top managers, thus the first goal was almost achieved; in 2022, the proportion of women leaders increased to 36%, thus the goal for 2023 was exceeded. The promotion of women to top management positions is supported by the new successor development process for B-1 positions which was implemented in 2022. Diversity, especially in relation to gender, was one of the key criteria in the process of nominating and selecting successors, so the pool of potential leaders consists of slightly more than 60% women. In this way, EBC wants to contribute to the inclusion of women in top management positions and to breaking the 'glass ceiling'.

In addition to the goals defined in coordination with Erste Group, the Bank also monitors locally defined goals concerning the demographic profile of senior management at the level of the Supervisory Board and the Management Board. At this level these goals are: women accounting for 23% of top managers by 2023 and 31% by 2025. At the end of 2022, this number was 17%, which means that in the next year the Bank will need to appoint one more female leader in these positions in order to achieve the goal.

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

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

EBC responds to a variety of initiatives, panels and lectures on diversity and actively promotes it at all professional conventions outside the bank.
In the past few years, EBC launched and is implementing a number of initiatives and activities under the slogan #različitoplavi, which aim to support diversity in the organization. The main sponsor of these initiatives is the Chairman of the Bank's Management Board, Christoph Shoefboeck, who is sometimes actively involved in some of the activities himself.

Diversity and gender equality and prevention of discrimination (continued)

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

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

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

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

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

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

Modelled after an event that took place the year prior, in October 2022 the Bank organized a half-day online event on financial literacy and financial health for all employees, and particularly women as more a vulnerable group when it comes to such topics. The event was again organised with the joint participation of local diversity managers from all Erste Group member countries. This year the joint part of the event featured an interesting lecture by financial activist Jacki Zehner who advocates for the equality of women and girls in relation to financial literacy and managing finances, and who calls herself a financial feminist. The local part of the event consisted of a panel discussion on financial resilience, which featured Bank's experts from various fields: macroeconomics, sales and psychology. The entire event garnered a large audience, around 150 employees of EBC Group joined in the online activities and provided very positive feedback about the content.

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

No cases of discrimination were recorded in 2022.

Diversity Charter

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

The Croatian Business Council for Sustainable Development is an organisation promoting the implementation of CSR in Croatia, and the Charter serves as a contribution to social development and the promotion of equal opportunities for all social groups. EBC is an active member of the network of experts in this field at the European Union level.
In addition to that, EBC is a member of the Alliance for Gender Equality, an initiative that brings together companies that advocate for increasing the number of women in management and other positions, equal pay for equal work and equal opportunities for advancement. Every year, the Bank's representatives attend the Alliance's Forum marking the International Women's Day and participate in discussions on relevant issues related to the equality of women.

In the past few years, EBC has been participating in the European project Diversity@Work, coordinated in Croatia by the Diversity Charter. The project includes around 80 organisations from ten EU countries, and its aim is to test tools for promoting diversity in organisations, adapt them to practice and ultimately enable organisations to apply the tools to their needs. In 2022, the Charter organized an online training course entitled "Diversity in the Workplace" in which around ten of the Bank's employees participated, attending several online training modules.

Code of Ethics

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

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

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

The Code of Conduct was updated in 2022, and the e-learning training course that was mandatory for all employees of the Bank was updated alongside it. By the end of the year, more than 2,400 employees, which represents more than 92% of total employees, attended the course and successfully passed the test.

Internal service quality

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

Vezica

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

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

The Bank continually invests efforts in maintaining good cooperation with employee representatives so that this open communication channel could also contribute to the growth and development of corporate culture, the organisation as a whole, and all its employees. This is achieved through regular monthly meetings, an open-door policy, and quarterly meetings with the Management Board and the Workers’ Council. In 2022, the meetings were organized quarterly. The collective agreement was concluded in 2006 and since then it has been renewed successfully and in the spirit of mutual cooperation and good will upon each expiry.

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

Blue elephant

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

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

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

#radimpametno

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

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

#radimpametno (continued)

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

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

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

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

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

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

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

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

Trainings and education

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

As in the previous year, online activities (webinars, online workshops, e-learning materials) accounted for a significant part of training activities, but the amount of "live" training sessions and workshops has been increasing and in 2022 they accounted for 35% of all training activities. In 2022, the emphasis was on development programmes for managers – for that group of employees, the number of training hours increased compared to the previous year.

Trainings and education (continued)

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

	WOMEN	MEN	MANAGERS	EMPLOYEES
Number of hours	71,669	27,846	22,248	77,267
Average number of hours	38	39	57	35

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

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

The main focus of development activities is divided into:

a) Expertise — functional-specific professional training — professional seminars and workshops, certifications, conferences, etc.

b) Personal development — training organised to develop personal competences such as presentation and communication skills, negotiation, conflict management and others.

An important part of development activities relates to leadership skills for managers — including motivation and team management, situational leadership, empathetic leadership, using leadership models and tools, and instructions for managing virtual and remote teams that has gained great importance over the past two years. In 2022, several development programs for managers were implemented that were adapted to the specific challenges in certain business areas (processing, retail sales, sales in the corporate segment, IT).

Another category of personal development that culminated during the pandemic is the protection of employees' mental health and coping with uncertainty. Employees were offered content related to the challenges of working from home, work-life balance during lockdowns imposed due to the pandemic, coping with stressful events and psychological empowerment. The topics concerning both mental and physical health continued to be very important in 2022, which can clearly be seen from the kind of training that employees were most interested in. Webinars that had more than 200 employees participating in them were: "How to prevent stress," "School of good posture," and "Integrative approach to health." Training was available to employees in the form of video materials and written content on the intranet, webinars and online workshops and e-learning courses.

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

One important training channel is Erste Guru, a local online learning system that provides access to various training topics in the form of videos, presentations, etc. Erste Guru is also a place where employees receive all mandatory, regulatory training — such as training on current product offers, sales skills, GDPR, competition rules, cyber security topics, etc. In this way, the reach of development activities in the organization is also greatly accelerated and expanded. Through 2022, training related to leadership skills, as well as training focused on mental and physical health, was in particular demand.

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

The average number of training days per active employee stood at 4.75 in 2022.

Table 5: Average number of training days per active employee

2019	2020	2021	2022
5.08	4.25	5.20	4.75

Employee programmes

Due to business line needs, various tailor-made programmes for specific groups of employees continued in 2022:

- *Erste Start* – a modular programme for the development of leadership skills and soft skills for newly appointed managers,
- *Erste Forward* – a modular programme for upgrading and refreshing leadership and soft skills for managers
- *HR Refresh* – a programme for line managers on practical examples and solutions related to operational staff management (labour legal issues, managing working time, performance management, etc.)
- *UP* - programme for the development of managerial and sales skills in the corporate banking sectors
- *Retail Leadership Academy* – programme for the development of managerial skills in the retail banking sectors
- *Processing Leadership Academy* - programme for the development of managerial skills in the Processing sector
- *How to Survive the Euro Year* – support programme for IT managers
- *Henry programme* – development of business and soft skills in the corporate banking support sector
- *E-Leadership Academy* – program for the highest level of line managers for the development of modern leadership skills and adoption of new trends and strategic competences
- *ROAD programme* – development activities for successors to B-1 positions
- *Tips & Tricks* – online programme for line managers with tips related to most important leadership areas (feedback, stress management, taking responsibility, etc.) tailored to meet the needs of individual organisational units
- Specific targeted programmes for individual organisational segments, depending on identified development needs

Erste Bank Croatia employees also have the possibility to attend various specialized training courses organized by the owner, Erste Holding. These training courses meet the needs for specialized training which is needed but not available on the market or the number of experts is too low to organize an in-house program. In 2022 the following were implemented:

1. Mastering Leadership Programme
2. Group Graduate Programme (GGP) 2022
3. Sales Training Programme
4. Project Risk Management Workshop
5. Power BI (storytelling)
6. License-to-lend
7. ALM - Fundamentals
8. ALM - Expert
9. Tagetik Webinar
10. Ethics Global Code
11. FLiP Capital Market Tour

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

Employee work-life balance and health

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

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

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

Employee work-life balance and health (continued)

The elements of wellbeing cover five interrelated areas that impact each other:

1. a work environment culture that encourages employees to look after their **health** is fostered;
2. on the other hand, **financial benefits** are that which enables economic security for employees and their families;
3. meaningful and purposeful work is an important tool for **career development**;
4. personal **intellectual progress** is ensured through opportunities to acquire new knowledge and skills;
5. good quality interpersonal relationships are an important part of the **social aspect** of private and business life.

In different life situations, the importance of certain elements changes, and it is necessary that all elements are represented and that there is a balance between them. EBC pays special attention to the needs of different groups of employees and creates occasional initiatives precisely for them, thus integrating the care for one another into daily operations.

For EBC employees, this means being in good health, enjoying security for themselves and their family, feeling a sense of fulfilment and satisfaction, a sense of growth and development through work and fun.

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

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

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

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

Alongside caring about their physical and mental health, in 2022 EBC also focused on the financial health of its employees. The international Erste Group launched WeShare, a program for distributing shares to employees, in which all Erste Group subsidiaries could participate, including EBC and its subsidiaries in Croatia. In addition to the distribution of shares, employees were also given the opportunity to further invest in Erste Group shares at their own choice and capabilities, and received additional shares as a return for the purchase. It is planned to continue the program in the coming years.

In addition to this program, midway through the year the Bank undertook another move with the aim of strengthening the financial health of employees, adjusting their salaries in order to reduce the impact of inflation on employees' financial resilience. At the end of 2022, the bank decided to take advantage of the legal increase of the maximum amount of tax-free income and thus provide additional financial support to employees.

Employee work-life balance and health (continued)

To achieve Well.being goals, EBC have the following benefits at their disposal.

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

All health benefits are available equally to all employees.

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

WOMEN		MEN		< 30 YEARS OF AGE		30-50 YEARS OF AGE		>50 YEARS OF AGE	
number	%	number	%	number	%	number	%	number	%
164	67%	79	33%	120	49%	118	49%	5	2%

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

WOMEN		MEN		< 30 YEARS OF AGE		30-50 YEARS OF AGE		>50 YEARS OF AGE	
number	%	number	%	number	%	number	%	number	%
131	7%	51	8%	41	13%	115	6%	26	7%

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

2021				2022			
WOMEN		MEN		WOMEN		MEN	
number	%	number	%	number	%	number	%
115	88%	9	100%	203	100%	19	100%

Safety

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

Safety at work is an important part of the Bank's daily operations, and over the past few years, due to Covid-19, monitoring the development of the disease and producing adequate guidelines, this segment has become extremely important.

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

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

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

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

Salaries

EBC's salaries and benefits policy is guided by the principles of transparency (information about all pay grades is publicly available to all employees), the market and the safety and stability of employees and their families. Compliance with these principles is one of the cornerstones of decision making when it comes to salaries and benefits. More information has been available on EBC's website since last year, which also greatly contributes to the transparency of the salaries and benefit policy. Also, as noted above, during 2019, the Erste standard of benefits was defined, which EBC undertook to follow during both good and difficult times.

Society

Social banking

EBC sees entrepreneurship as a positive model for addressing social issues or situations. From the Bank's perspective, supporting a sustainable entrepreneurial project instead of a one-off sponsorship and donation can be a long-term solution. Erste's social banking initiative encourages the financial inclusion of start-up entrepreneurs, non-profit organisations and social entrepreneurs, offering them access to financial products, financial consulting and ongoing mentorship tailored to their needs. So far, more than EUR 11.9 million have been allocated for this purpose with more than 525 clients supported.

In 2022, EBC provided EUR 1.4 million to support start-up entrepreneurs, a special group of clients, persons who are self-employed, i.e. start-up entrepreneurs who have started their own business, craft or family farm in the last two years. This programme encourages self-employment and the development of entrepreneurship, and, in addition to funding, supports the design and realisation of a business idea by implementing free online education on relevant entrepreneurial topics and providing consultation services. In 2022, 257 business plans were drawn up, 7842 users participated in the e-learning programme and a total of 1047 hours of consultations took place.

In addition to supporting start-ups, EBC is also implementing a programme to support and finance non-profit organisations and social entrepreneurs that were supported with EUR 1.6 million in 2022. In addition, 300 participants participated in various programmes and 3142 hours of consultations were provided.

In 2022, Erste Bank Croatia, in cooperation with its partners ACT Group, Panda Communications and Erste Foundation, started implementing the 'Leave a Good Trace' programme. It is a programme that aims to improve financial resilience through the improvement of fundraising capacity. The idea was born from the long-term experience of inclusive banking that the bank implements with start-up entrepreneurs and non-profit organizations, support in transferring ideas 'from theory to reality' and understanding the administrative burden and the involvement of the non-profit sector in the race for EU funds. It consists of two parts - educational and mentoring, through which all participants are provided with individual support for the development of a social business canvas, fundraising strategy, storytelling along with instructions for adapting digital channels as a prerequisite for the successful implementation of a fundraising campaign. A total of 41 associations applied for the programme.

Financial literacy

School of Smart Finance

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

Five years ago, the Bank launched a pilot project entitled the School of Smart Finance, which includes free educational workshops on personal finance management and interactive video training. It was motivated by a survey showing that 87% of citizens recognise the importance of financial literacy.

Due to the Covid-19 pandemic, the workshops for all interested citizens, businesses and educational institutions were adapted to the online channel, through MS Teams. Since such a workshop format was very well accepted, online workshops continued in 2022, when we also started organising them in bank branches, in several Croatian cities (Rijeka, Split, Osijek and Zagreb). In order to bring the financial literacy programme closer to as many young people as possible, the Bank held more than 40 workshops in primary and secondary school and universities, with nearly 1,000 participants. Overall, more than 90 workshops with 2,200 participants were held in 2022. Since the School programme was first introduced in 2019, it has had more than 11,000 participants.

Because of the importance of this programme, especially for children and youths, in 2023 the Bank is planning to focus more on organising workshops in primary and secondary schools, as well as universities and student organisations.

Other

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

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

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

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

Due to the specific circumstances, and depending on the epidemiological situation and recommendations, some of these activities took place in-person, while some were held online.

Social responsibility

Dialogue with the local community

EBC endeavours to nurture a two-way communication with the local community and achieve as much transparency as possible.

This is also fostered through partnerships with numerous associations, faculties, exhibitions and presentations at fairs, conferences and conventions throughout Croatia. In 2022, the following was successfully implemented:

- Participation in the Career Week organised by the Faculty of Organisation and Informatics in Varaždin (employer exhibition booth, presentation to students, lecture from IT experts given to the students of the Faculty)
- Participation in the Career Day organized by the Faculty of Science in Zagreb (exhibition booth, presentation to students, providing information about opportunities for placement)
- Several guest lectures for students given by IT experts at the Bjelovar University of Applied Sciences (exhibition booth at the conference organized by the University – B:IT.con) and at the Faculty of Organisation and Informatics in Varaždin
- Career Day at the University of Rijeka (exhibition booth, presentation to students)
- Career Day at the Polytechnic of Rijeka (exhibition booth)
- Participation in the RIT Career Day as part of a panel discussion

A total of 33 students completed their placements at Erste Bank Croatia in 2022, which the students carry out to fulfil their university course requirements or gain basic knowledge of the business area that interests them.

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

Also worth noting are non-profit organisations which participated or continue to participate in programmes for novice entrepreneurs which the EBC facilitates. The Bank supports their work not only financially, but also in various other ways, such as by hiring them for marketing purposes, promoting their activities on the bank's communication channels, etc.

Scholarships

As in previous years, in 2022 students could apply for the “Best of South East” scholarship programme, launched by Steiermärkische Bank and Sparkassen AG (Sparkasse Bank) in cooperation with the University of Graz. It is aimed at graduates and students with very good grades and pronounced characteristics like dedication, developed communication skills as well as analytical and practical economic thinking. The programme comprises of a one-year internship at Sparkasse Bank or another Styria-based company for graduates and one year of studying at the University of Graz for students.

In 2022 the Bank again participated in the “Step into Life” campaign by granting scholarships to children without adequate parental care to enable them to attend university. Along with the Rotary Club Zagreb Kaptol, EBC is the largest individual sponsor.

In the fall of 2019, the ECB introduced the practice of providing scholarships for high school and university students with disabilities within the framework of hiring persons with disabilities within the quota. This practice was continued in the last, fourth consecutive school year (2021/2022) when 20 high school and university students received regular monthly scholarship. In addition to this, cooperation agreements on the purchase of marketing materials have been concluded with two protective workshops which mostly hire persons with disabilities. In autumn 2022, contracts on scholarships for pupils and students with disabilities were signed with a total of 17 students for the school year 2022/2023.

Sponsorships and donations

Through its sponsorship and donation activities, EBC is involved and actively supports various initiatives and projects that contribute to the development and improvement of the society as a whole, both locally and throughout the Republic of Croatia. Aware of the needs of the community, as a socially responsible enterprise, EBC continued to support numerous cultural, scientific, health, educational, sports and humanitarian projects during 2022.

Nearly EUR 2.1 million was allocated through the sponsorship and donation programme in 2022. The Bank supported around 600 projects and institutions of a humanitarian and educational nature, as well as clubs, associations, institutions and projects of sports and cultural and artistic nature, through sponsorship or donation.

Through sponsorships, in 2022 EBC supported the DA2 festival of documentary film, Ulysses Theatre, Austrian Culture Forum – exhibition entitled "Body and Territory: Art and Borders in Contemporary Austria" at the Museum of Contemporary Art, Cinema Cinema children's film fesitval, Youth Salon at the Croatian Association of Artists and Zlatan Vehabović's exhibition at the Museum of Arts and Crafts. The Bank also supported the International Festival of Small Scenes, Ballet Ensemble of the Ivan pl. Zajc National Theatre in Rijeka as well as the Rijeka Carnival and the Little Prince exhibition held in Rijeka; Špancirfest festival, Varaždin National Theatre, Varaždin Baroque Evenings, BOK festival in Bjelovar, DOKUart festival of documentary film which, in addition to its regular programme, encourages children and young people from all over Croatia to create their own documentaries, and the Christmas outdoor jazz concert in Bjelovar. Support was also provided to Samobor Carnival, Samobor music festival, International Children's Festival in Šibenik and the Croatian Home in Split.

Erste Bank Croatia also supports numerous conferences held across Croatia; in 2022, these included the Sustainable Development Conference, Entrepreneurial Mindset conference held in Lauba, Good Wind Days in Dubrovnik, Support the Sustainable, Better Education, Better Croatia…
Sponsorships and donations (continued)

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

Through the creative platform Urbanka powered by Erste, various international exhibitions were supported, projects such as the Grafiti na gradele, an international festival bringing together world-known graffiti artists, Crtani romani šou, a comic book festival, DA2 film festival dedicated to design, art and architecture, Gallery Rally as an interactive cultural event that connects ten galleries in Zagreb and actively includes visitors in their tour.

Sponsorships and donations (continued)

The 18th consecutive competition for young artists – Erste Fragments – was held in 2022. More than 100 applications from young artists were received, works of art were purchased and exhibited in EBC's business premises and branch offices across Croatia. In addition, scholarships were awarded to the best young artists. Erste fragmenti exhibition was held in autumn last year at the Lauba People and Art House.

When it comes to supporting the social community through donations and sponsorships, the Bank supported the Nazorova Children's Home and the SOS Children's Village for orphaned children. Donations were made to the Special Orthopaedics Hospital in Biograd na moru, Bjelovar General Hospital, Zadar General Hospital, Zadar County Health Centre, Croatian Association for Paediatric Surgery in Klaićeva, and the Croatian Thyroid Disease Association.

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

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

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

Erste Blue League is a project intended for Croatian primary school students enrolled in grades 1 to 6 and is designed to help children develop an athletic spirit and to encourage them to get involved in sports. The 10th competitive season was held last year, in which a total of 4138 children participated, which is a new record for this competition. The 60 Minutes GO campaign included renowned athletes, coaches, teachers and institutions with the aim of contributing to and raising equal opportunities and conditions for doing the daily sixty minutes of physical activity for interested children. Competitions were held in nine cities (Rijeka, Zagreb, Osijek, Makarska, Zadar, Pula, Knin, Vukovar and Čakovec, with the final taking place in Zagreb).

The Erste Handball League is a unique children's handball league intended for primary school students enrolled in grades 2 to 7. This league aims to show that everyone needs physical activity to grow up healthy and happy, while giving children the opportunity to participate in competitions, socialize and have fun. World-renowned handball players Ivano Balić and Petar Metličić and their handball club are involved in the organization of the League. They are role models to all competitors of the league and represent additional motivation for the children and clubs to take part in the competition. In the fifth season of the Erste Handball League, competitions were held in ten cities (Rijeka, Rovinj, Split, Zadar, Šibenik, Dubrovnik, Labin, Poreč, Umag and Pula, and the final in Split), and a total of 4720 children participated in it.

Through sports sponsorships, EBC traditionally supports the Croatian Table Tennis Association, the Erste Beach Volleyball Club from Zagreb, Primorje Rijeka Water Polo Club, Croatian Football Club in Rijeka, Croatian Olympic Committee, the traditional Fiumanka sailing regatta in Kvarner in which more than 200 sailboats participate, Biograd Boat Show, the largest boat fair in Croatia, Velika Gorica Football Club and a number of other regional sport clubs to promote different types of sports and sports activities among the young generations of athletes. EBC also supported the Terry FOX Charity Run which was held in 2022 in its original form. The funds were donated to the Croatian League Against Cancer and Solidarna association.

It is also worth nothing initiatives launched by different sectors of the Bank and employees themselves. Since 2013, the Bank has been running the HOPE donation fund, whose mission is to collect employee donations with the aim of helping orphaned children, living in children's homes across Croatia. Participation in this initiative, as well as the size of donations, is entirely voluntary and can consist of a one-time donation or regular monthly payments made through a open payment order. The initial idea was to collect small monthly donations from a larger number of employees in order to help children's homes to procure equipment and other necessities that children need.

Sponsorships and donations (continued)

There is also the AZIL initiative, a cashiers' solidarity fund, i.e., a special purpose, voluntary fund for covering cashiers' shortages and financial damages suffered by clients as a result of cashiers' mistakes when working with clients. All employees may join the fund, regardless of their job position, but it benefits only the employees in positions that include working at the cash register, vault and cash centre. The membership fee is HRK 15 a month for cashiers and is collected from members' salaries, while other members that join the fund in solidarity donate any amount they want, which they specify in the membership application created specifically for this purpose.

Last year, EBC once again supported and actively participated in the project of the Erste Group titled *Kontakt. The Art Collection of Erste Group and ERSTE Foundation.* The collection was founded in 2004 and includes more than many works of art made from different countries, focusing on Eastern, South-Eastern and Central Europe.

Humanitarian campaigns

Erste challenge

For the fifth consecutive year, in the campaign that lasted from January to December 2022, EBC Group employees in Croatia undertook to reach a mileage target by engaging in a sport or recreational activity with the aim of securing a charity donation. The target was set at 120,000 kilometres and the final mileage reached was above the target, therefore the bank donated a total of HRK 20,000 to the association Down Syndrome Centre Pula.

Corporate volunteering – “Pay It Forward”

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

Through various projects throughout the year, employees helped and worked together to do good. This may have included socialising with elderly or sick retirement home users, improving homes for children, caring for the poor and the homeless, cleaning the environment, etc.

In 2022, volunteer work was carried out in the following institutions and organisations: Business Skills Academy, Friends shelter in Čakovec, Lug Centre for Upbringing and Education, Australian Football Association in Croatia, and Noah's Ark. A total of 22 volunteering days were carried out.

Volunteering was carried out in such a way that employees were informed about different volunteering options via intranet or they themselves found such opportunities. Additionally, sometimes Human Resources provides assistance with organizing it by proposing a volunteering location and helping with everything required for volunteering to take place.

Since 2015, EBC has been a signatory of the Charter Recognising Competences Acquired by Volunteering, and since 2019 the Bank has been a signatory of the Employee Volunteering Charter. The best acknowledgement of the efforts and engagement of Erste volunteers are the many thanks they received from various institutions and associations in 2022.

Happy Hour

Employees of the Bank, as well as other subsidiaries, regularly organise annual campaigns of selling cakes and other sweet or savoury products, which they made themselves, to raise funds that they donate to associations or individuals in difficult life circumstances. After a two-year break, Happy Hour was once again held this year, in Zagreb and in Rijeka. Collected donations were divided into three sums and donated to three organisations. Happy Hour was also held at Erste Card Club, which sent its donation to the Vladimir Nazor Centre for Providing Community Services.

Environment

In the last few years, the subject of environmental protection has become increasingly important for the sustainable development and viability of companies and people. As climate change has started to affect almost every country on every continent and change the way people live and work, the battle for environmental protection has become a global preoccupation. The importance of these topics is reflected in numerous summits, agreements and initiatives of the world's leading powers which aim to find the best possible solutions through joint efforts. The last such conference was held in Egypt in late 2022 where it was confirmed that efforts made so far will be increased, and all globally involved parties were invited to gradually reduce the production of energy from coal with unabated emissions and abolish inefficient fossil fuel subsidies as well as strengthen efforts to mobilize funds to support climate action. The goal of a global commitment to mobilize USD 100 billion annually by 2025 to help developing countries face the effects of climate change was also adopted.

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

Managing environmental impacts

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

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

To achieve its goals, EBC has implemented an environmental management system that complies with the requirements of ISO 14001:2015. The Environmental Management System according to the ISO 14001 standard was extended (recertified) at the end of 2020 and integrated with the Energy Management System according to the ISO 50001 standard, which will allow more advanced monitoring of electricity consumption and its rational use in the coming years, which should ultimately result in certain savings. The next recertification is planned for 2023.

The active involvement of our employees is crucial for achieving these goals. In this regard, EBC conducts training of all employees on rational energy and paper consumption, and proper waste separation, as well as systematic training on the ISO 14001:2015 standard, with all its elements and goals. Since early 2020, training on environmental protection and rational use of energy is mandatory for all new employees, and all employees underwent this training in 2022.

As in the previous years, the yearly external audit was performed by a licenced certification company in 2022 to ascertain that the Environmental Management System functions in accordance with the international standard ISO 14001: 2015. The Bank has completed all necessary activities to extend the ISO 14001:2015 certificate for another year. Some of EBC's subsidiaries (Erste Card Club, Erste Leasing and Erste Bank A.D. Podgorica) did the same.

EBC has set Strategic Environmental Objectives for the period from 2022 to the end of 2024. Compared to the reference year 2019, they are:
- Maintain electricity consumption at +/- 3% (2019: 10.98 GWh, 2,489 FTE)
- Maintain heat consumption at +/- 3% (2019: 4.09 GWh)
- Reduce CO2 emission 0-3% (2019: 2,251 tCo2/ FTE)

Managing environmental impacts (continued)

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

_ implement internal educational campaigns on environmental protection, electricity and thermal energy savings for new employees
_ further installation of UV protective foils on the premises
_ production of 64,000 kWh (± 5 %) of green energy from photovoltaic cells installed on the office building in Zagreb

Energy

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

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

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

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

In 2022, the instalation of sun protection foils continued. Apart from providing much better working conditions for employees in summer, they also reduce the electricity consumption of air conditioning. Last year, foils were installed on glazed surfaces in branch offices – two in Split and in branches in Koprivnica and Našice.

The Bank constantly controls and works to reduce energy consumption, and in order for this to be done as efficiently as possible, all employees and users of the premises need to be trained, which was carried out throughout the year. Employee training on the rational use of energy became mandatory for all new employees as of 2020. The trainings brought results, so the consumption of thermal energy was reduced by almost 20% compared to the reference year 2019, while the consumption of electricity was reduced by almost 5%.
After the coronavirus pandemic in the past two years brought a drop in energy consumption in fuel consumption for official vehicles, fuel consumption increased after the end of the pandemic, which was expected.

Significant progress in the use of renewable energy sources was made in June 2021, when photovoltaic cells were installed on the roof of the Erste office building in Zagreb. The goal was to produce 64,000 kWh of green energy, but the power plant exceeded the goal and in 2022 more than 75,500 kWh of electricity was produced. In 2023, it is planned to start producing electricity in Bjelovar and to expand the power plant in Lučićeva in Zagreb.

Emissions

In 2021, EBC continued to use 100% renewable electricity, which means that, in addition to maintaining low CO2 emission levels, EBC contributed to, i.e., participated in the implementation of national energy efficiency projects through the ZelEN fund.

Emissions (continued)

At Erste Group-level, CO2 emissions are monitored in all member states and are calculated using data on energy consumption and consumption of photocopier paper. EBC continues to record a constant decline in CO2 emissions:

Table 9: CO2 emission

	2020	2021	2022
tCO2e	1,936	1,916	1,563

In 2021, EBC procured and put into service five electric cars, and due to undeveloped EV-charging infrastructure in Croatia, the Bank developed its own charging network by installing fast and slow charging stations near office buildings in Zagreb, Rijeka and Bjelovar. A total of 10 charging stations have been installed during last two years and there are plans to install three more in 2023.

Waste separation and reduction of unselected municipal waste

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

The Bank constantly controls and works to reduce the consumption of photocopier paper across all its segments, and training courses have been organised for this purpose. Already in 2019, the reduction in consumption was significant (23%), and in 2020, it was even more pronounced, amounting to nearly 40%. This decline continued in 2021, but it should be noted that the coronavirus pandemic and specific working conditions also had a major impact on reducing paper consumptions. This can be seen in the fact that in 2022 the average number of used reams of photocopier paper per employee increased to 13.45.

Table 10: Consumption of photocopier paper

	2020	2021	2022
Ream/FTE	11.18	10.77	13.45

In order to reduce the negative impact on the environment in the future and further reduce the amount of unseparated municipal waste, in late 2018 the Bank replaced paper hand towels in sanitary facilities with linen towels. As part of this initiative, employee training was organised. By using linen towels, EBC reduced the amount of unseparated municipal waste by 70-90% every year compared to previous years when paper hand towels were used. However, with the emergence of the coronavirus pandemic in 2020, the use of paper towels (mainly for disinfecting work surfaces) increased again, and this trend continued in 2021. However, as pandemic restrictions were being loosened, with the majority of them being lifted in 2022, the procurement and distribution of paper hand towels was stopped as well.

In addition, in 2018 the Bank installed containers for separate disposal of waste in all office buildings and branch offices across Croatia, establishing waste disposal procedures and organizing training for employees on this subject. In addition to separate disposal of paper, plastic, metal and glass, special containers for disposing of waste batteries were set up in office buildings in Zagreb, Rijeka and Bjelovar. Considering that there are no data available at the level of the Republic of Croatia on the amount of individual types of disposed waste, only special categories of disposed waste are registered. Data shows that in 2022 the Bank disposed of: 3.76 tonnes of bulk waste and nearly 40 tonnes of electronic waste.

Other activities

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

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

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

When designing branch offices in accordance with the new service model concept which, in addition to the mode of operation also includes EBC's visual identity, green walls made of living plants are standardly installed, which have proved to contribute significantly to creating a pleasant work environment for our employees and their coexistence with nature. In addition to the administrative building in Zagreb, so far green walls have been installed in office branches in Pula, Makarska and Zagreb (in Masarykova Street and Dubrovnik Avenue), Zadar, Šibenik, Vinkovci, Viškovo, Buzet, one branch office in Split, on Rab island and two branch offices in Zagreb. In addition, indoor plants contribute to a natural increase of humidity in heated spaces during winter, thus reducing the need to use energy for artificial humidification.

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

EU Taxonomy related disclosures

The Taxonomy Regulation is a regulation that establishes a classification system that helps determine whether an economic activity is environmentally sustainable, while sustainable economic activity is defined as contributing to one or more of the six defined environmental objectives - climate change mitigation, climate change adaptation, sustainable use and water protection and marine resources, the transition to a circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems. In addition, the EU Taxonomy Regulation requires that none of the above environmental objectives be significantly damaged and implemented in accordance with minimum safeguards (according to the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, International Organization (ILO) for Fundamental Principles and Rights at Work and the International Charter of Human Rights).

From 2022, institutions participating in the financial markets are obliged to publish information related to the first two goals, whereby taxonomically acceptable economic activities are more closely defined by Commission Delegated Regulation (EU) 2021/2139 for the first two goals. The criteria for the other environmental targets are still being worked out. For the financial year 2022, for financial institutions, the simplification provisions from Delegated Regulation (EU) 2021/2178 (Article 10, paragraph 3) continue to apply, which states that it is necessary to publish part of the exposure to taxonomically acceptable and taxonomically unacceptable economic activities in total assets, share of exposure to states, central banks and supranational issuers in total assets, share of derivatives in total assets, share of exposure to companies that do not prepare non-financial reports, share of trading portfolio in total assets and share of short-term interbank loans in total assets.

In order to comply with the requirements of the new regulation, Erste Bank Croatia used information from the portfolio screening conducted by the international Erste Group for all members of the Group.
Taxonomy-eligible and non-eligible activities are defined according to the European Industrial Classification System (NACE), which serves as a basis for defining economic activities in taxonomy.

EU Taxonomy related disclosures (continued)

The exposures set out in item 1 include the following categories of financial assets, including loans and advances, debt securities, equity investments and repossessed collateral: (a) financial assets at amortized cost, (b) financial assets at fair value through other comprehensive income in other comprehensive income, (c) investments in subsidiaries, (d) joint ventures and associates, (e) financial assets designated at fair value through profit or loss and non-trading financial assets mandatorily at fair value throught profit or loss (f) real estate collaterals obtained by credit institutions by taking possession in exchange for the debt cancellation.

Only contractual partners that are themselves subject to the EU Non-Financial Reporting Directive (NFRD) are to be included in the disclosure of taxonomy-eligible assets. Essentially, there are listed companies that meet certain size criteria and have more than 500 employees on average per year, as well as banks and insurance companies with more than 500 employees. Private households and local authorities are not subject to comparable size criteria. With regard to the assets described in points 2 to 6, the legislator does not provide for the disclosure of the taxonomy-capable or non-taxonomy-capable portion. The regulatory scope of consolidation in accordance with Regulation (EU) No. 575/2013 applies to all disclosures.

The key figures determined by ERSTE Group are based on the total balance sheet as the denominator. Foreclosed properties as collateral were added to the total balance sheet.

According to the interpretation in the Frequently Asked Questions (FAQ) published by the European Commission in December 2021, the disclosure of taxonomically acceptable exposures must be based on actual information provided by a financial or non-financial entity. For the calculation of taxonomically acceptable assets, only financing from the field of commercial real estate financing, private mortgage financing, renewable energy sources and corporate financing with a clearly defined ecologically sustainable financing purpose was used.

The proportion of taxonomically eligible assets fell to just over 16% in the 2022 financial year compared to the previous year, with the main reason for this decline being changes in the calculation method.

Table 11: EU Taxonomy Disclosures

Taxonomy related disclosures (EC 2021/4987, Article 10)	2021	2022
Mandatory taxonomy-related disclosures		
Central governments, central banks, supranational issuers and derivates/ Total assets	44.70%	49.02%
SME's and NFCs not subject to NFRD disclosure obligations/ Total assets	16.80%	15.77%
Trading portfolio/ Total assets	0.20%	0.18%
On-demand interbank loans/ Total assets	0.50%	0.60%
Taxonomy - eligible activities/ Total assets*	25.10%	16.60%
Taxonomy non - eligible activities/ Total assets*	45.70%	83.40%

**compared to previous year denominator has been changed from GAR assets to total assets*

Voluntary taxonomy-related disclosures	2021	2022
Estimated green assets/ Total GAR assets	3.00%	6.62%

Suppliers

Suppliers' responsibility

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

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

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

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

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

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

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

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

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

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

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

GRI Content Index

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Reference to Annual Report 2022	Comment/Reason for ommission
GRI 102 General Disclosures 2016					
1. Organisational profile					
GRI 102	General Disclosures	102-1	Name of the organisation	4	Erste&Steiermärkische Bank d.d.
GRI 102	General Disclosures	102-2	Activities, brand, products, and services	86	Annual report: General information
GRI 102	General Disclosures	102-3	Location of headquarters	86	Rijeka, Jadranski trg 3a, Republic of Croatia
GRI 102	General Disclosures	102-4	Location of operations	86	General information
GRI 102	General Disclosures	102-5	Ownership	86	General information
GRI 102	General Disclosures	102-6	Markets served	86	General information
GRI 102	General Disclosures	102-8	Information on employees	39	Non-financial report: Employees
GRI 102	General Disclosures	102-9	Suppliers	60	Non-financial report: Suppliers
GRI 102	General Disclosures	102-10	Changes in the supply chain	60	No significant changes
GRI 102	General Disclosures	102-11	Precautionary principles	29	Non-financial report: Code of Conduct of the ESB Group; Statement of Purpose
GRI 102	General Disclosures	102-12	External initiatives	33, 55	Non-financial report: Customers, Environment
GRI 102	General Disclosures	102-13	Membership of associations	n.a.	Croatian Banking Association, Croatian Chamber of Economy
2. Strategy					
GRI 102	General Disclosures	102-14	Report of the Chairman of the Management Board	6	Report of the Chairman of the Management Board
GRI 102	General Disclosures	102-15	Key impacts, risks and opportunities	32	Non-financial report: Materiality analysis
3. Ethics and integrity					
GRI 102	General Disclosures	102-16	Values, principles, standards, and norms of behaviour	39	Non-financial report: Employees
4. Governance					
GRI 102	General Disclosures	102-18	Governance structure	66	General information: Supervisory Board, Management Board
5. Stakeholders					
GRI 102	General Disclosures	102-40	List of stakeholders	32	Non-financiral report: Materiality analysis
GRI 102	General Disclosures	102-41	Collective bargaining agreements	39	Non-financial report: Employees
GRI 102	General Disclosures	102-42	Identifying stakeholders	32	Non-financial report: Materiality analysis
GRI 102	General Disclosures	102-43	Approach to stakeholder engagement	32 at seq.	Non-financial report: Materiality analysis
GRI 102	General Disclosures	102-44	Key topics and concerns	32	Non-financial report: Materiality analysis
6. Reporting practice					
GRI 102	General Disclosures	102-46	Defining report content	29	Non-financial report: Materiality analysis
GRI 102	General Disclosures	102-47	List of material topics	32	Non-financial report: Materiality analysis
GRI 102	General Disclosures	102-49	Changes in reporting	32	No changes were made.
GRI 102	General Disclosures	102-50	Reporting period	4	From 1.1.2022. to 31.12.2022.
GRI 102	General Disclosures	102-51	Date of most recent report	n.a.	Annual report for the year ending on 31.12.2021.
GRI 102	General Disclosures	102-52	Reporting cycle	4	Annual
GRI 102	General Disclosures	102-54	Claims of reporting in accordance with GRI standards	29	EBC's non-financial report was prepared in accordance with the requirements of the Global Reporting Initiative (GRI standard: core option)
GRI 102	General Disclosures	102-55	GRI content index	61	Non-financial report

GRI Content Index (continued)

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Reference to Annual Report 2022	Comment/Reason for ommission
GRI 103 Management Approach 2016					
GRI 103	Management Approach	103-1	Explanation of the material topics	30	Non-financial report: Materiality analysis
Material and additional topics					
Material topic: Anti-corruption (GRI 205 Anti-corruption 2016)					
GRI 205	Anti-corruption	205-3	Confirmed incidents of corruption	33	Non-financial report: Anti-corruption There were no confirmed incidents of corruption in 2022
Material topic: Emissions (GRI 305 Emissions 2016)					
GRI 305	Emissions	305-5	Reduction of emissions	56, 47	Non-financial report: Emissions
Material topic: Responsible criteria in the supply chain (GRI 308 Negative environmental impacts in the supply chain and actions taken 2016)					
GRI 308	Negative impact on the environment by the suppliers	308-2	Negative impact on the environment by the suppliers	60	Non-financial report: Suppliers
Material topic: Health and work-life balance (GRI 401 Employment 2016)					
GRI 401	Employees	401-1	New employees	48	Non-financial report: Employees New employees: 243; Fluctuaction: 182
GRI 401	Employees	401-3	Parental leave	48	Non-financial report: Employees
Material topic: Health and work-life balance (GRI 403 Occupational health and safety 2018)					
GRI 403	Occupational health and safety	403-1	Occupational health and safety management system	49	Non-financial report: Employees
GRI 403	Occupational health and safety	403-3	Occupational health services	49	Non-financial report: Employees
GRI 403	Occupational health and safety	403-5	Prevention and mitigation of occupational	49	Non-financial report: Employees
GRI 403	Occupational health and safety	403-7	Worker training on occupational health and safety impacts directly linked by business relationships	49	Non-financial report: Employees
Material topic: Training and education (GRI 404 Training and education 2016)					
GRI 404	Training and education	404-1	Number of hours of training	45	Non-financial report: Emloyees
Material topic: Diversity and equality (GRI 405 Diverity and Equal Opportunity 2016)					
GRI 405	Diversity of managerial bodies and employees	405-1	Structure of managerial bodies and employees	39	Non-financial report: Employees
Material topic: Diversity and equality (GRI 406 Non-discrimination 2016)					
GRI 406	Anti-discrimination	406-1	Total number of incidents of discrimination	n.a.	Non-financial report: Employees There were no incidents recorded during 2022
Material topic: Customer satisfaction					
Information on customer satisfaction				36, 37	Non-financial report: Clients
Material topic: Financial literacy					
Information on activities implemented in the area of raising financial literacy				50-54	Non-financial report: Society

Corporate Governance Statement

Corporate Governance Statement

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

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

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

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

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

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

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

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

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

Corporate Governance Statement (continued)

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

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

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

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

The Bank's share capital, fully subscribed, amounts to HRK 1,698,417,500.00 and is divided into 16,984,175 ordinary shares issued in dematerialized form, registered with the Central Depositary and Clearing Company under »RIBA-R-A« mark.

The nominal value of each share amounts to HRK 100.00 and entitles the holder to one vote at the Bank's General Meeting.

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

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

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

On May 20, 2022 the Bank held its regular General Meeting at which a Decision on Profit Distribution for the year 2021 was made. Net profit for year 2021 amounts HRK 847,307,177.50 and amount of 322,326,328.25 was distributed in the retained earnings, while the amount of HRK 524,980,849.25 was ditributed as the dividend to the Bank's shareholders.

The dividend is determined in amount of 30.91 % of the nominal share value, which makes HRK 30.91 per share.

The payment of dividend to the shareholders Erste Group Bank AG and Steiermärkische Bank und Sparkassen AG was effectuated as of May 27, 2022.

Corporate Governance Statement (continued)

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

Besides regular General Meeting in 2022, the Bank held two extraordinary General Meetings as well.

At extraordinary General Meeting held on June 30, 2022, Decision on the amendments of the Articles of Association of the Bank, Decision on suitability assessment of the members for the Supervisory Board and Decision on amendments of the Suitability policy were made. Also, PricewaterhouseCoopers d.o.o. was appointed as the Bank's auditor for 2022.

At extraordinary General Meeting held on November 30, 2022 Decision on suitability of the candidate for the member of the Supervisory Board, Decision on election of the Supervisory Board's members and Decision on remuneration for the member of the Supervisory Board were made.

The members of the Management Board represent the Bank and operate the Bank's business on its own responsibility according to the Companies Act, the Credit Institutions Act and internal acts of the Bank. On July 31, 2022, the mandate of one member of the Management Board expired, hence the Management Board as of August 1, 2022 has 5 (five) members. One member of the Management Board is appointed as the president of the Board. The Management Board conducts its activities and adopts its decisions and resolutions at the Meetings. The organization, operation and decision making of the Management Board are regulated by the Rules of Procedure of the Management Board.

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

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

Members of the Supervisory Board are:
- Willibald Cernko, President of the Supervisory Board,
- Georg Bucher, Deputy President of the Supervisory Board,
- Ingo Bleier, Member of the Supervisory Board,
- Judit Ágnes Havasi, Member of the Supervisory Board,
- Walburga Seidl, Member of the Supervisory Board,
- Nikolai Leo de Arnoldi, Member of the Supervisory Board,
- Roland Klimesch, Member of the Supervisory Board.

Corporate Governance Statement (continued)

The Supervisory Board conducts its activities at the Meetings. Summoning and holding meetings and process of making decisions and authorizations are prescribed by the Rules of procedure of the Supervisory Board. Supervisory Board has five (5) committees as follows: Audit Committee, Credit Committee, Remuneration Committee, Nomination Committee and Risk Committee which are established with the aim of making competent and independent judgements on all issues placed in their jurisdiction by the Bank's internal acts and the relevant regulations. Committee members are appointed from the members of the Supervisory Board.

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

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

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

Credit Committee:
- Willibald Cernko, President
- Nikolai Leo de Arnoldi, Member
- Walburga Seidl, Member
- Roland Klimesch, Member

Risk Committee:
- Nikolai Leo de Arnoldi, President
- Walburga Seidl, Member
- Willibald Cernko, Member

Financial Statements for the year ended 31 December 2022

Erste&Steiermärkische Bank d.d.

Responsibility for the Financial Statements

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

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

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

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

Moreover, in accordance with the Accounting Law, the Management Board is obliged to prepare an Annual Report comprising the financial statements, the Management Report and the Corporate Governance Statement. The Management Report and the Corporate Governance Statement were prepared in line with the requirements of Articles 21, 22 and 24 of the Accounting Law. Also, the Management Board is responsible for the submission of its Annual report, which includes annual separate and consolidated financial statements, to the Supervisory Board for acceptance. If the Supervisory Board approves the Annual report it is deemed confirmed by the Management Board and Supervisory Board.
In accordance with Commission Delegated Regulation (EU) 2018/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of the single electronic reporting format ("ESEF Regulation"), the Management Board is obliged to prepare and publish separate and consolidated Annual Report in XHTML format and to mark the annual financial statements prepared in accordance with IFRS in XHTML format using XBRL codes to meet Article 462 requirements of the Capital Market Act.

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

Christoph Schoefboeck
President

Martin Hornig
Member

Hannes Frotzbacher
Member

Krešimir Barić
Member

Zdenko Matak
Member

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

24 March 2023

Independent Auditor's Report

To the Shareholders of Erste&Steiermärkische Bank d.d.

Report on the audit of the separate and consolidated financial statements

Our opinion

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

Our opinion is consistent with our additional report to the Audit Committee dated 24 March 2023.

What we have audited

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

- the separate and consolidated statements of profit or loss for the year ended 31 December 2022;
- the separate and consolidated statements of other comprehensive income for the year ended 31 December 2022;
- the separate and consolidated statements of financial position as at 31 December 2022;
- the separate and consolidated statements of changes in equity for the year then ended;
- the separate and consolidated statements of cash flow for the year ended 31 December 2022; and
- the notes to the separate and consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the separate and consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank and the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that the non-audit services that we have provided to the Bank and the Group are in accordance with the applicable law and regulations in Croatia and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

The non-audit services that we have provided to the Bank and the Group, in the period from 1 January 2022 to 31 December 2022, are disclosed in Note 52 to the separate and consolidated financial statements.

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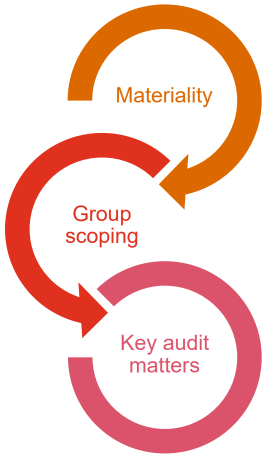
Our audit approach

Overview



- Overall Bank materiality: HRK 65 million, which represents 5% of pre-tax result for the period.
- Overall Group materiality: HRK 77 million, which represents 5% of pre-tax result for the period.

- We conducted audit work for 4 reporting units in 2 countries.
- Our audit scope addressed 100% of the Group's interest income and 99% of the Group's absolute value of the underlying pre-tax result.

- Estimate of credit loss allowances for loans and advances to customers
- Provisions for litigations related to loans originally issued in, or indexed to Swiss Franc

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the separate and consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the separate and consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the separate and consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the separate and consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the separate and consolidated financial statements as a whole.

Overall Bank and Group materiality	The Bank: HRK 65 million The Group: HRK 77 million
How we determined it	The Bank and the Group: 5% of pre-tax result for the period.
Rationale for the materiality benchmark applied	We chose pre-tax result for the period, because, in our view, it is the benchmark against which the performance of the Bank and the Group is commonly measured by users and shareholders and is a generally acceptable benchmark.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Estimate of credit loss allowances for loans and advances to customers (the Bank and the Group) Refer to section *Impairment of financial instruments under IFRS 9* in note *Financial instruments - Significant accounting policies*, section *Loans and advances at amortised costs to customers* in note 14 *Financial assets at amortized costs* and note 29 *Credit risk exposure* to the financial statements for detailed information on the expected credit loss ("ECL") for loans and advances to customers. As at 31 December 2022, the Bank and Group had credit loss allowances for loans and advances at amortised cost to customers of HRK 1,994 million and HRK 2,279 million, respectively. We focused on this area during the audit due to the significance of the amounts involved for the separate and consolidated financial statements and also because the management makes complex and subjective judgements over both the timing and size of the expected credit losses, which makes it a complex area of accounting. For loans with low credit risk credit loss allowances are generally collectively measured at an amount equal to 12-month expected credit loss. If a significant increase in credit risk has occurred, credit loss allowances are measured as lifetime expected credit losses. For defaulted loans that are considered not to be individually significant, expected credit losses are collectively assessed as well.	Our audit approach was the following: • We updated our understanding of the ECL calculation methodology applied by the Bank and the Group, obtained the understanding of model adjustments made as a result of the management's assessment of the geopolitical and macroeconomic uncertainties impact and assessed their compliance with the requirements of IFRS 9. We engaged our credit risk technical experts to assist us in undertaking this assessment. • We evaluated significant control activities in credit risk management and lending business processes and tested key controls, notably with respect to the approval of loans and ongoing monitoring. • We evaluated control activities and tested key controls in the area of critical data including the customer ratings and collateral valuation, and also assessed the independent model validation framework, validation results and overall model governance for compliance with IFRS 9. • We tested on a sample basis the critical data in the source systems and their input in the ECL calculation engine (probability of default, loss given default and customers ratings). • We assessed the process of incorporating the forward-looking information in the ECL estimates. • We assessed the validation and monitoring reports to confirm the correctness of staging, ECL calculation, model performance and data quality checks. • We tested, on a sample basis, the correct stage allocation according to the relevant policies on additional model adjustments due to the geopolitical and macroeconomic uncertainties.

Key audit matter	How our audit addressed the key audit matter
In these cases, the ECL is determined by using the key assumptions being the probability of an account falling into arrears and subsequently defaulting ("PD"), definition of significant increase in credit risk, exposure at the moment of default ("EAD") and the estimated losses from defaulted loans ("LGD"). Statistical models are used for determination of the key assumptions including different future macroeconomic scenarios. For defaulted loans considered to be significant at customer level, ECL is determined on an individual basis. In these cases, ECL is determined by using key assumptions being the scenario probabilities, expected cash flows as well as expected proceeds from the realization of collateral (where applicable).	• We verified the reconciliation of the output of the ECL calculation engine with the accounting records. • We tested, on a sample bases, the adequacy of individual loan loss allowances, assessing the forecasted scenarios and the estimated expected cash flows. • We have assessed the disclosures related to credit loss allowances for loans and advances to customers in the financial statements, including those that address the impact of geopolitical and macroeconomic uncertainties, with respect to their adequacy and compliance with the IFRS requirements.

Key audit matter	How our audit addressed the key audit matter
Provisions for litigations related to loans originally issued in or indexed to Swiss Franc (the Bank and the Group) As at 31 December 2022, the Bank and the Group recorded provisions for litigation cases related to loans originally issued in or indexed to Swiss Francs ("CHF"). Note 45 Provisions *Remaining classes of provisions*, to the financial statements provide information related to these provisions for litigation claims. The provision for litigation cases relates to loans that have not been converted to HRK and are still denominated in CHF, including requests for nullifying loan agreements in full and requests for nullifying specific clauses of loan agreements and also to default interest for the loans converted from CHF to EUR according to the Consumer Protection Act. Provisions for litigation claims represent the management's best estimate over both the timing and size of the probable outflow of economic resources required to settle the obligation at the reporting date. We focused on this area because there are considerable judgements and estimates in applying the IFRS to estimating both timing and size of the outflows of economic resources required to settle the Bank's obligations resulting from these litigation claims, given their inherent uncertainty.	Our audit approach was the following: • We obtained understanding of the process and methodology applied to estimating the provisions for litigations related to loans originally granted in CHF. • We obtained a detailed overview of the litigation claims against the Bank for loans denominated in CHF and the analytics of the provisions recognised for these cases. We reconciled this information to the information provided in the financial statements and to the information received from external law firms. • As a part of our testing of the management's estimate, we obtained an independent overview and opinion pertaining to the Bank's litigation cases from the external law firms and we assessed the amount of provisions for reasonableness by comparing provisions made with the external law firms' opinion and available public information in order to challenge the key assumptions made by management. • We have tested the calculation of the provisions for litigation claims for mathematical accuracy.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Reporting on other information including the Management Report

Management is responsible for the other information. The other information comprises the Management Report, Corporate Governance Statement and Non–financial Report included in the Annual Report, but does not include the separate and consolidated financial statements and our auditor's report thereon.

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

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

With respect to the Management Report, Corporate Governance Statement and Non–financial Report, we also performed procedures required by the Accounting Act in Croatia. Those procedures include considering whether the Management Report is prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act, whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act and whether the Non–financial Report is prepared in accordance with the requirements of Article 21a of the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report and the Corporate Governance Statement for the financial year for which the separate and consolidated financial statements are prepared is consistent, in all material respects, with the separate and consolidated financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act; and
- the Non–financial Report was prepared in accordance with the requirements of Article 21a of the Accounting Act.

In addition, in light of the knowledge and understanding of the Bank and the Group and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management Report and Corporate Governance Statement and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the separate and consolidated financial statements

Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the separate and consolidated financial statements

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied. rom the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters.

We describe these matters in our independent auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Bank and the Group on 12 June 2017. Our appointment has been renewed annually by shareholder resolution with the most recent reappointment on 30 June 2022, representing a total period of uninterrupted engagement appointment of 6 years.

Forms in accordance with Regulatory Requirements

Based on the Decision on the structure and content of annual financial statements of credit institutions (Official Gazette 42/18, 122/20, 119/21 and 108/22), "Decision"), the Management Board of the Bank prepared the forms presented in the Appendix 1 – Forms according to local requirements (the "Forms"), which are entitled the Income statement and the Statement of other comprehensive income of the Bank and Group for the year ended 31 December 2022, Statements of financial position of the Bank and the Group as at 31 December 2022, the Statements of changes in equity of the Bank and the Group and the Cash flow statements of the Bank and the Group for the year then ended, together with information to reconcile the Forms to the Bank's and the Group's financial statements, disclosed in Appendix 2 – Differences between financial statements according to IFRS and local requirements. The Bank's management is responsible for the preparation of the Forms and information on reconciliation. They do not represent an integral part of the audited financial statements, but contain information required by the Decision. The financial information in the Forms is derived from the Bank's and the Group's audited financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union as presented on pages 80 to 238, adjusted for the purposes of the Decision.

Report on compliance of the format of the separate and consolidated financial statements with the requirements of the European Single Electronic Format ("ESEF") Regulation

We have been engaged based on our agreement by the management of the Bank to conduct a reasonable assurance engagement for the verification of compliance with the applicable requirements of the presentation of the separate and consolidated financial statements included in the attached electronic file 549300A2F46GR0UOM390-2022-12-31-en, (hereinafter: the financial statements) of the Bank and the Group for the year ended 31 December 2022 (the "Presentation of the Financial Statements").

Description of a subject matter and applicable criteria

The Presentation of the Financial Statements has been prepared by the management of the Bank to comply with the requirements of Article 462 paragraph 5 of the Capital Market Act (Official Gazette, No. 65/18, 17/20 and 83/21) (the “Capital Market Act”) and with the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the “ESEF Regulation”).

Those regulations require that:

- the financial statements included in the separate and consolidated Annual Report, have been prepared in the XHTML format;
- the data included in the separate and consolidated financial statements required by the ESEF Regulation and Capital Market Act have been marked up and all the markups meet the following requirements:
    - the XBRL markup language has been used,
    - the core taxonomy elements listed in the ESEF Regulation with the closest accounting meaning have been used, unless an extension taxonomy element was created in accordance with Annex IV of the ESEF Regulation,
    - the markups comply with the common rules on markups under the ESEF Regulation.

The requirements described above determine the basis for application of the Presentation of the Financial Statements and, in our view, constitute appropriate criteria to form a reasonable assurance conclusion.

Responsibility of the management and those charged with governance

The Bank’s management is responsible for the Presentation of the Financial Statements in accordance with the ESEF Regulation and the Capital Market Act. In addition, the Bank’s management is responsible for maintaining an internal control system that reasonably ensures the preparation of the Presentation of the Financial Statements which is free from material non-compliance with the requirements of the ESEF Regulation and the Capital Market Act, whether due to fraud or error.

Those charged with governance are responsible for overseeing the process of preparing the Presentation of the Financial Statements in the ESEF format as part of the financial reporting process.

Our responsibility

Our responsibility is to express a reasonable assurance conclusion, based on the audit evidence obtained, whether the Presentation of the Financial Statements complies, in all material respects, with the requirements of the ESEF Regulation and the Capital Market Act. We conducted a reasonable assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information. This standard requires that we comply with ethical requirements, plan and perform procedures to obtain reasonable assurance whether the Presentation of the Financial Statements is prepared, in all material respects, in accordance with the applicable requirements.

Reasonable assurance is a high level of assurance, but it does not guarantee that the service performed in accordance with ISAE 3000 (R) will always detect a material misstatement (significant non-compliance with the requirements).

Procedures performed

The nature, timing and extent of the procedures selected are matters for the professional judgment of the auditor.

As part of the selected procedures, we performed in particular the following procedures:

- read the requirements of the ESEF Regulation and the Capital Market Act;
- obtaining an understanding of the internal control system and processes relevant to the application of the Electronic Reporting Format of the Financial Statements, including the preparation of the XHTML format and marking up the separate and consolidated financial statements;
- verification whether the XHTML format was applied properly;
- evaluating the completeness of marking up the separate and consolidated financial statements using the XBRL markup language according to the requirements of the implementation of electronic format as described in the ESEF Regulation;
- evaluating the appropriateness of the use of XBRL markups selected from the ESEF taxonomy and the creation of extension markups where no suitable element in the ESEF taxonomy has been identified; and
- evaluating the appropriateness of anchoring of the extension elements to the ESEF taxonomy.

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

Conclusion

In our opinion, based on the procedures performed and evidence obtained, the Presentation of the Financial Statements for the year ended 31 December 2022 included in the above stated attached electronic file complies, in all material respects, with the ESEF Regulation and the Capital Market Act.

Our conclusion is not an opinion on the true and fair presentation of the financial statements presented in electronic format. In addition, we do not express any form of assurance on the other information disclosed in the documents in the ESEF format.

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

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
24 March 2023

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

I. Statement of Comprehensive Income for the Year ended 31 December 2022

Statement of Profit or Loss

in HRK million	Notes	GROUP 2021	GROUP 2022	BANK 2021	BANK 2022
Net interest income	2	2,003	2,121	1,612	1,747
Interest income		2,107	2,175	1,766	1,859
Other similar income		155	184	55	76
Interest expense		(204)	(170)	(157)	(121)
Other similar expenses		(55)	(68)	(52)	(67)
Net fee and commission income	3	809	884	519	598
Fee and commission income		1,068	1,199	713	860
Fee and commission expenses		(259)	(315)	(194)	(262)
Dividend income	4	1	-	11	47
Net trading and fair value result	5	221	298	218	309
Gains/losses from financial instruments measured at fair value through profit or loss	6	4	(12)	6	(13)
Net result from equity method investments		9	8	-	-
Rental income from investment properties & other operating leases	7	66	59	4	3
Personnel expenses	8	(779)	(860)	(581)	(670)
Other administrative expenses	8	(611)	(699)	(457)	(550)
Depreciation and amortisation	8	(250)	(246)	(143)	(154)
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	9	-	1	-	1
Impairment result from financial instruments	10	(167)	318	(144)	248
Other operating result	11	(9)	(329)	(13)	(271)
Other operating income		201	78	197	70
Other operating expenses		(210)	(407)	(210)	(341)
Pre-tax result for the period		**1,297**	**1,543**	**1,032**	**1,295**
Income tax	12	(228)	(371)	(185)	(318)
Net result for the period		**1,069**	**1,172**	**847**	**977**
Net result attributable to non-controlling interests		19	(4)	-	-
Net result attributable to owners of the parent		**1,050**	**1,176**	**-**	**-**

Earnings per share

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

in HRK million	GROUP 2021	GROUP 2022
Net result for the period	1,069	1,172
Net result attributable to owners of the parent	1,050	1,176
Weighted average number of shares of 100 HRK each (for basic and diluted earnings per share)	16,984,175	16,984,175
Earnings per ordinary share – basic and diluted (in HRK)	**61.82**	**69.24**

I. Statement of Comprehensive Income for the Year ended 31 December 2022 (continued)

Statement of Other Comprehensive Income

in HRK million	GROUP		BANK	
	2021	2022	2021	2022
Net result for the period	**1,069**	**1,172**	**847**	**977**
Other comprehensive income				
Items that may not be reclassified to profit or loss				
Remeasurement of net liability of defined pension plans	-	1	-	1
Fair value reserve of equity instruments	9	-	7	-
Own credit risk reserve	-	-	-	-
Income taxes relating to items that may not be reclassified	(1)	-	(1)	-
Total	**8**	**1**	**6**	**1**
Items that may be reclassified to profit or loss				
Fair value reserve of debt instruments	(153)	(994)	(135)	(950)
Gain/(loss) during the period	(162)	(981)	(144)	(937)
Reclassification adjustments	-	(1)	-	(1)
Credit loss allowances	9	(12)	9	(12)
Currency translation	(2)	2	-	-
Gain/(loss) during the period	(2)	2	-	-
Reclassification adjustments	-	-	-	-
Income taxes relating to items that may be reclassified	26	178	24	171
Gain/(loss) during the period	26	178	24	171
Reclassification adjustments	-	-	-	-
Total	**(129)**	**(814)**	**(111)**	**(779)**
Total other comprehensive income	**(121)**	**(813)**	**(105)**	**(778)**
Total comprehensive income	**948**	**359**	**742**	**199**
Total comprehensive income attributable to non-controlling interests	19	(4)	-	-
Total comprehensive income attributable to owners of the parent	**929**	**363**	**-**	**-**

II. Statement of Financial Position as at 31 December 2022

in HRK million		GROUP		BANK	
	Notes	31 December 2021	31 December 2022	31 December 2021	31 December 2022
Assets					
Cash and cash balances	13	14,530	25,982	13,518	24,632
Financial assets – held for trading		145	197	145	197
Derivatives	17	70	193	70	193
Other financial assets held for trading	18	75	4	75	4
Non-trading financial assets at fair value through profit or loss		75	60	70	58
Equity instruments	19	10	21	10	19
Debt securities	19	65	39	60	39
Financial assets at fair value through other comprehensive income		11,947	9,167	11,448	8,787
Pledged as collateral	24	6	1,723	6	1,723
Equity instruments	20	4	4	4	4
Debt securities	21	11,943	9,163	11,444	8,783
Financial assets at amortised cost		59,328	71,049	54,719	65,877
Pledged as collateral	24	-	2,748	-	2,748
Debt securities	14	4,935	10,024	4,674	9,721
Loans and advances to banks	14	4,406	2,890	4,322	2,598
Loans and advances to customers	14	49,987	58,135	45,723	53,558
Finance lease receivables	42	2,546	3,018	-	-
Property and equipment	39	1,179	1,166	792	802
Investment properties	39	3	9	-	-
Intangible assets	40	327	171	135	112
Investments in subsidiaries	48	-	-	805	680
Investments in associates	49	62	65	38	38
Current tax assets	12	-	7	-	-
Deferred tax assets	12	207	404	132	338
Assets held for sale	53	336	4	3	-
Trade and other receivables	15	1,270	1,297	692	879
Other assets	41	324	271	251	177
Total assets		**92,279**	**112,867**	**82,748**	**102,577**
Liabilities and equity					
Financial liabilities – held for trading		56	175	56	175
Derivatives	17	56	175	56	175
Financial liabilities measured at amortised cost		79,559	99,949	72,378	92,010
Deposits from banks	16	6,533	11,217	3,242	7,657
Deposits from customers	16	68,268	84,198	64,927	80,413
Debt securities issued	16	4,010	3,646	4,010	3,646
Other financial liabilities	16	748	888	199	294
Lease liabilities	42	99	91	100	93
Provisions	45	409	674	384	582
Current tax liabilities	12	92	251	74	230
Deferred tax liabilities	12	2	-	-	-
Liabilities associated with assets held for sale	53	261	-	-	-
Other liabilities	44	631	718	438	495
Total liabilities		**81,109**	**101,858**	**73,430**	**93,585**
Subscribed capital		1,698	1,698	1,698	1,698
Capital reserves and share premium		1,886	1,886	1,886	1,886
Retained earnings		7,231	7,887	5,592	6,043
Other reserves		139	(673)	142	(635)
Equity attributable to owners of the parent		10,954	10,798	9,318	8,992
Equity attributable to non-controlling interests	48	216	211	-	-
Total equity	**47**	**11,170**	**11,009**	**9,318**	**8,992**
Total liabilities and equity		**92,279**	**112,867**	**82,748**	**102,577**

III. Statement of Changes in Equity

GROUP

	Subscribed capital	Capital reserves and share premium	Retained earnings	Fair value reserve	Currency translation reserve	Remea-surement of defined benefit plans	Income tax	Equity at-tributable to owners of the parent	Equity at-tributable to non-controlling interests	Total equity
As of 1 January 2022	**1,698**	**1,886**	**7,231**	**171**	**(1)**	**-**	**(31)**	**10,954**	**216**	**11,170**
Dividends paid	-	-	(525)	-	-	-	-	(525)	(1)	(526)
Reclassification from other comprehensive income to retained earnings	-	-	(1)	1	-	-	-	-	-	-
Other changes (Note: Scope of consolidation)	-	-	6	-	-	-	-	6	-	6
Total comprehensive income	**-**	**-**	**1,176**	**(994)**	**2**	**1**	**178**	**363**	**(4)**	**359**
Net result for the period	-	-	1,176	-	-	-	-	1,176	(4)	1,172
Other comprehensive income	-	-	-	(994)	2	1	178	(813)	-	(813)
Change from remeasurement of defined benefit plans	-	-	-	-	-	1	-	1	-	1
Change in fair value reserve	-	-	-	(994)	-	-	178	(816)	-	(816)
Change in currency translation reserve	-	-	-	-	2	-	-	2	-	2
As of 31 December 2022	**1,698**	**1,886**	**7,887**	**(822)**	**1**	**1**	**147**	**10,798**	**211**	**11,009**
As of 1 January 2021	**1,698**	**1,886**	**6,231**	**452**	**1**	**-**	**(82)**	**10,186**	**198**	**10,384**
Dividends paid	-	-	(161)	-	-	-	-	(161)	(1)	(162)
Reclassification from other comprehensive income to retained earnings	-	-	111	(137)	-	-	26	-	-	-
Total comprehensive income	**-**	**-**	**1,050**	**(144)**	**(2)**	**-**	**25**	**929**	**19**	**948**
Net result for the period	-	-	1,050	-	-	-	-	1,050	19	1,069
Other comprehensive income	-	-	-	(144)	(2)	-	25	(121)	-	(121)
Change from remeasurement of defined benefit plans	-	-	-	-	-	-	-	-	-	-
Change in fair value reserve	-	-	-	(144)	-	-	25	(119)	-	(119)
Change in currency translation reserve	-	-	-	-	(2)	-	-	(2)	-	(2)
As of 31 December 2021	**1,698**	**1,886**	**7,231**	**171**	**(1)**	**-**	**(31)**	**10,954**	**216**	**11,170**

III. Statement of Changes in Equity (continued)

										BANK
	Subscribed capital	Capital reserves and share premium	Retained earnings	Fair value reserve	Currency translation reserve	Remea-surement of defined benefit plans	Income tax	Equity at-tributable to owners of the parent	Equity at-tributable to non-controlling interests	Total equity
As of 1 January 2022	**1,698**	**1,886**	**5,592**	**171**	**-**	**2**	**(31)**	**9,318**	**-**	**9,318**
Dividends paid	-	-	(525)	-	-	-	-	(525)	-	(525)
Reclassification from other comprehensive income to retained earnings	-	-	(1)	1	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**977**	**(950)**	**-**	**1**	**171**	**199**	**-**	**199**
Net result for the period	-	-	977	-	-	-	-	977	-	977
Other comprehensive income	-	-	-	(950)	-	1	171	(778)	-	(778)
Change from remeasurement of defined benefit plans	-	-	-	-	-	1	-	1	-	1
Change in fair value reserve	-	-	-	(950)	-	-	171	(779)	-	(779)
As of 31 December 2022	**1,698**	**1,886**	**6,043**	**(778)**	**-**	**3**	**140**	**8,992**	**-**	**8,992**
						-				
As of 1 January 2021	**1,698**	**1,886**	**4,811**	**418**	**-**	**2**	**(78)**	**8,737**	**-**	**8,737**
Dividends paid	-	-	(161)	-	-	-	-	(161)	-	(161)
Reclassification from other comprehensive income to retained earnings	-	-	95	(119)	-	-	24	-	-	-
Other changes (Note: Scope of consolidation)	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**847**	**(128)**	**-**	**-**	**23**	**742**	**-**	**742**
Net result for the period	-	-	847	-	-	-	-	847	-	847
Other comprehensive income	-	-	-	(128)	-	-	23	(105)	-	(105)
Change from remeasurement of defined benefit plans	-	-	-	-	-	-	-	-	-	-
Change in fair value reserve	-	-	-	(128)	-	-	23	(105)	-	(105)
As of 31 December 2021	**1,698**	**1,886**	**5,592**	**171**	**-**	**2**	**(31)**	**9,318**	**-**	**9,318**

IV. Statement of Cash Flow for the year ended 31 December 2022

in HRK million	GROUP		BANK	
	2021	2022	2021	2022
Net result for the period	**1,069**	**1,172**	**847**	**977**
Non-cash adjustments for items in net profit/loss for the year				
Depreciation, amortisation, impairment and reversal of impairment, revaluation of assets	299	372	192	278
Net allocation of credit loss allowances and other provisions	95	(110)	106	807
Gains/(losses) from the sale of assets	3	-	(3)	(5)
Income tax expense/(income)	228	370	184	318
Other adjustments	7	(23)	6	7
Changes in assets and liabilities from operating activities after adjustment for non-cash components				
Financial assets – held for trading	(31)	71	(31)	71
Non-trading financial assets at fair value through profit or loss				
Equity instruments	159	2	142	4
Debt securities	87	13	(27)	8
Financial assets at fair value through other comprehensive income: debt securities	(948)	1,786	(1,005)	1,711
Financial assets at amortised cost				
Debt securities	(2,572)	(5,088)	(2,495)	(5,048)
Loans and advances to banks	(163)	1,516	(150)	1,724
Loans and advances to customers	(661)	(7,640)	(611)	(8,483)
Finance lease receivables	(91)	(328)	-	-
Derivatives	(2)	(4)	(2)	(4)
Other assets from operating activities	25	(195)	13	(128)
Financial liabilities measured at amortised cost				
Deposits from banks	(2,373)	4,543	(1,967)	4,415
Deposits from customers	8,140	15,930	7,673	15,486
Debt securities issued	3,333	(365)	3,333	(365)
Other financial liabilities	43	140	37	95
Other liabilities from operating activities	(232)	(58)	(215)	(75)
Cash flow from operating activities	**6,415**	**12,104**	**6,027**	**11,793**
Proceeds from disposal				
Financial assets at fair value through other comprehensive income: equity instruments	1	-	1	-
Property and equipment, intangible assets and investment properties	39	46	3	11
Acquisition of				
Financial assets at fair value through other comprehensive income: equity instruments	-	-	-	-
Property and equipment, intangible assets and investment properties	(212)	(233)	(112)	(137)
Merger of subsidiary (net of cash and cash equivalents acquired) (Note: Scope of consolidation)	-	34	-	-
Investments in associates	-	-	-	-
Disposal of subsidiaries	-	68	-	-
Investment in subsidiaries	-	(15)	38	-
Cash flow from investing activities	**(172)**	**(100)**	**(70)**	**(126)**
Dividends paid to equity holders of the parent	(161)	(525)	(161)	(525)
Dividends paid to non-controlling interests	(1)	(2)	-	-
Lease liabilities	(19)	(25)	(20)	(28)
Cash flow from financing activities	**(181)**	**(552)**	**(181)**	**(553)**
Cash and cash equivalents at beginning of period	**8,468**	**14,530**	**7,742**	**13,518**
Cash flow from operating activities	6,415	12,104	6,027	11,793
Cash flow from investing activities	(172)	(100)	(70)	(126)
Cash flow from financing activities	(181)	(552)	(181)	(553)
Cash and cash equivalents at end of period1)	**14,530**	**25,982**	**13,518**	**24,632**
Cash flows related to taxes, interest and dividends (included in cash flow from operating activities)	**1,919**	**1,713**	**1,650**	**1,561**
Payments for income tax	(32)	(239)	(18)	(197)
Interest received	2,224	2,224	1,879	1,902
Dividends received	1	2	11	47
Interest paid	(274)	(274)	(222)	(191)

1) Cash and cash equivalents are equal to cash in hand and equivalents held with central banks and placements with banks with original maturity up to 3 months (Note 13).

V. Notes to the Financial Statements

A. GENERAL INFORMATION

HISTORY AND INCORPORATION

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

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

PRINCIPAL ACTIVITIES OF THE BANK

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

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

SUPERVISORY BOARD

Willibald Cernko	President
Georg Bucher	Deputy President
Ingo Bleier	Member
Roland Klimesch	Member
Judit Agnes Havasi	Member
Walburga Seidl	Member
Nikolai Leo de Arnoldi	Member

MANAGEMENT BOARD

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

Christoph Schoefboeck	President
Borislav Centner	Member until 31 July 2022
Zdenko Matak	Member
Martin Hornig	Member
Krešimir Barić	Member
Hannes Frotzbacher	Member

A. GENERAL INFORMATION (CONTINUED)

PROCURATORS:

The Bank at the moment does not have procurators.

The Bank's share capital, fully subscribed, amounts to HRK 1,698,417,500.00 and is divided into 16,984,175 ordinary shares. All shares of the Bank hold companies Erste Group Bank AG (10,023,326 shares or 59.02%) and Steiermärkische Bank und Sparkassen AG (6,960,849 shares or 40.98%).

DEFINITION OF THE CONSOLIDATED GROUP

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

Name of subsidiary	Note	Ownership interest	Principal activity	Registered office
Erste Nekretnine d.o.o.	48	100%	Real estate business	Ivana Lučića 2A, Zagreb
Erste Bank AD Podgorica, Montenegro	48	100%	Credit institution	Arsenija Boljevića 2A, Podgorica, Montenegro
Erste Card Club d.o.o.	48	100%	Financial intermediation and services	Ulica Frana Folnegovića 6, Zagreb
Erste Card d.o.o. Slovenia (until June 2022)	48	100%	Financial intermediation and services	Dunajska cesta 129, Ljubljana, Slovenia
Erste&Steiermärkische S-Leasing d.o.o.	48	50%	Financial and operating leasing	Zelinska 3, Zagreb
Izbor Nekretnina d.o.o.	48	100%	Real estate management and lease	Ivana Lučića 2A, Zagreb
Erste Group IT HR d.o.o.	48	80%	IT engineering	Jurja Haulika 19/A, Bjelovar
Name of associate				
Erste d.o.o.	49	45.86%	Management company for obligatory and voluntary pension fund	Ivana Lučića 2A, Zagreb

Additions and disposals

Disposal group held for sale in 2021 and disposal in 2022

In October 2021 Erste Card Club d.o.o. signed an agreement for the sale of Erste Card d.o.o., Slovenia to bank Sparkasse Bank d.d., Slovenia. As the sale was not completed by the of end 2021, and subsidiary was presented as disposal group held for sale for the financial year 2021, sale was finalized during June 2022. Information for disposal group held for sale and sale disclosed in Note 53 Assets held for sale and liabilities associated with assets held for sale.

Acquisition and merger in 2022

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

Significant accounting policies

BASIS OF PREPARATION

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

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

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

Except as otherwise indicated, the amounts in the financial statements are stated in millions of local currency – Croatian Kuna (HRK) which is the Bank functional and the Bank and Group presentation currency.

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

Accounting and measurement methods

Foreign currency translation

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

i.Transactions and balances in foreign currency

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

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

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

ii.Translation of the statements of Group companies

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

The principal rates of exchange set forth by the Croatian National Bank and used in the preparation of the Group and the Bank’s statement of financial position at the reporting dates were as follows:

31 December 2022	EUR 1= HRK 7.53450
31 December 2021	EUR 1= HRK 7.517174

Significant accounting judgements, assumptions and estimates

The consolidated financial statements contain amounts that have been determined on the basis of judgements and by the use of estimates and assumptions. The estimates and assumptions used are based on historical experience and other factors, such as planning as well as expectations and forecasts of future events that are currently deemed to be reasonable. The estimates and underlying assumptions are regularly evaluated. As a consequence of the uncertainty associated with these assumptions and estimates, actual results could in future periods lead to adjustments in the carrying amounts of the related assets or liabilities.

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed in:

_Impairment of financial instruments (Chapter Financial instruments – Significant accounting policies, Chapter Risk management)
_Control of subsidiaries (Note 48 Subsidiaries)
_Sundry provisions (Note 45 Provisions)

Application of amended and new IFRS/IAS

The accounting policies adopted are consistent with those used in the previous financial year except for standards and interpretations that became effective for financial years beginning on or after 1 January 2022. As regards new standards and interpretations and their amendments, only those that are relevant for the business of the Group are listed below.

Effective standards and interpretations

The following amendments of standards have become mandatory for the financial year 2022, and have been endorsed by the EU:

Annual Improvements to IFRSs 2018-2020 Cycle (amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41)

Application of the above mentioned amendments in 2022 did not have a significant impact on the Group’s financial statements.

Standards and interpretations not yet effective

The standards, amendments and interpretations shown below were issued by the IASB but are not yet effective.

IFRS 17: Insurance contracts
Amendments to IAS 1: Disclosure of Accounting Policies
Amendments to IAS 8: Definition of Accounting Estimates
Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

IFRS 17: Insurance contracts. IFRS 17 was issued in May 2017 and is effective for annual periods beginning on or after 1 January 2023. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. Application of IFRS 17is not expected to have a significant impact on Group’s financial statements.

Amendments to IAS 1: Disclosure of Accounting policies. The amendments to IAS 1 were issued In February 2021 and are effective for annual periods beginning on or after 1 January 2023. The amendments specify that an entity is required to disclose its material accounting policy information. A guidance was added to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material. Application of these amendments is not expected to have a significant impact on the Group’s financial statements. However, revisions in the disclosures of the accounting policies may be required.

Application of amended and new IFRS/IAS (continued)

Amendments to IAS 1: Classification of liabilities as current or non-current. The amendments to IAS 1 were issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2023. These amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. Application of these amendments is not expected to have a significant impact on the Group's financial statements.

Amendments to IAS 8: Definition of Accounting Estimates. The amendments to IAS 8 were issued In February 2021 and are effective for annual periods beginning on or after 1 January 2023. The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. Application of these amendments is not expected to have a significant impact on the Group's financial statements.

Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction. The amendments to IAS 12 were issued In March 2021 and are effective for annual periods beginning on or after 1 January 2023. The amendments specify that the initial recognition exemption stipulated in IAS 12.15(b) and IAS12.24 does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. Application of these amendments is not expected to have a significant impact on the Group's financial statements.

PERFORMANCE / RETURN

1. Segment reporting

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

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

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

Asset Liability Management (ALM) and Local Corporate Center (LCC) segment includes all asset/liability management functions, local corporate center which comprise all non-core banking business activities such as internal service providers and reconciliation items to local entity results as well as free capital segment (defined as the difference of the total average IFRS equity and the average economical equity allocated to the segments).
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Group Markets segment comprises trading and markets services as well as customer business with financial institutions. It includes all activities related to the trading books of Erste Group, including the execution of trade, market making and short-term liquidity management. In addition, it comprises business connected with servicing financial institutions as clients including custody, depository services, commercial business (loans, cash management, trade & export finance).

1. Segment reporting (continued)

	Retail		Corporates		Group Markets		ALM & LCC		GROUP	
in HRK million	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**
Net interest income	1,303	1,288	772	777	3	18	(75)	38	2,003	2,121
Net fee and commission income	517	549	263	296	33	43	(4)	(4)	809	884
Dividend income	-	-	-	-	-	-	1	-	1	-
Net trading and fair value result	104	121	71	99	59	89	(13)	(11)	221	298
Gains/losses from financial instruments at FVPL	-	-	7	(12)	-	-	(3)	-	4	(12)
Net result from equity method investments	9	8	-	-	-	-	-	-	9	8
Rental income from investment properties & other operating leases	24	20	38	37	3	3	1	(1)	66	59
General administrative expenses	(1,180)	(1,305)	(398)	(438)	(42)	(53)	(20)	(9)	(1,640)	(1,805)
Gains/losses from derecognition of financial assets at AC	-	-	-	-	-	-	-	-	-	-
Impairment result from financial instruments	(106)	48	(72)	267	9	-	2	3	(167)	318
Other operating result	(3)	(5)	122	(8)	(1)	(1)	(127)	(315)	(9)	(329)
Pre-tax result for the period	**668**	**724**	**803**	**1,018**	**64**	**99**	**(238)**	**(298)**	**1,297**	**1,543**
Income tax	(114)	(167)	(143)	(243)	(12)	(24)	41	63	(228)	(371)
Net result for the period	**554**	**557**	**660**	**775**	**52**	**75**	**(197)**	**(235)**	**1,069**	**1,172**
Net result attributable to non-controlling interests	**-**	**-**	**19**	**(4)**	**-**	**-**	**-**	**-**	**19**	**(4)**
Net result attributable to owners of the parent	**554**	**557**	**641**	**779**	**52**	**75**	**(197)**	**(235)**	**1,050**	**1,176**
Operating income	1,957	1,986	1,151	1,197	98	153	(93)	22	3,113	3,358
Operating expenses	(1,180)	(1,305)	(398)	(438)	(42)	(53)	(20)	(9)	(1,640)	(1,805)
Risk-weighted assets (credit risk, eop)	13,726	13,859	22,633	25,973	673	158	16,800	5,763	53,832	45,753
Average allocated capital	2,085	2,145	2,841	3,112	76	93	3,059	3,932	8,061	9,282
Cost/income ratio	60%	66%	35%	37%	43%	35%	(22)%	41%	53%	54%
Return on allocated capital	27%	26%	23%	25%	68%	81%	(6)%	(6)%	13%	13%
Total assets (eop)	26,892	28,726	30,657	36,989	535	682	34,195	46,470	92,279	112,867
Total liabilities excluding equity (eop)	43,610	52,887	21,613	26,818	1,406	2,427	14,480	19,726	81,109	101,858
Impairments	**(107)**	**48**	**(72)**	**267**	**9**	**(1)**	**(84)**	**(126)**	**(254)**	**188**
Net impairment loss on financial assets AC/FVOCI and finance lease receivables	(97)	82	78	446	9	-	3	4	(7)	532
Net impairment loss on commitments and guarantees given	(10)	(34)	(150)	(179)	-	(1)	-	-	(160)	(214)
Net impairment on investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-	-	-	-	-
Impairment of goodwill	-	-	-	-	-	-	(48)	(125)	(48)	(125)
Net impairment on other non-financial assets	-	-	-	-	-	-	(39)	(5)	(39)	(5)

1. Segment reporting (continued)

Measurement

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

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

The Group is not disclosing information about revenue from external customers for Group's products and services (or groups of similar products and services), based on IFRS 8.32, as the information is not available and the cost of to develop it would be excessive.

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

Return on asset ratio (ROA) in the Group was 1.15% on 31 December 2022 (2021: 1.17%) and in the Bank 1.05% (2021: 1.06%).

Return on equity ratio (ROE) in the Group was 10.8% on 31 December 2022 (2021: 9.8%) and in the Bank 10.7% (2021: 9.3%).

2. Net interest income

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

‘Interest income’ relates to interest revenue from financial assets measured at amortised cost and at fair value through other comprehensive income. It is calculated using the EIR method as discussed in chapter ‘Financial instruments - Significant accounting policies’, part ‘Measurement methods for financial instruments’.

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

‘Interest expenses’ relates to interest expense from financial liabilities measured at amortised cost calculated using effective interest rate as discussed in chapter ‘Financial instruments - significant accounting policies’, part ‘Measurement methods for financial instruments’ .

‘Other similar expenses’ capture interest-like sources of expense resulting from non-derivative financial liabilities measured at fair value through profit or loss, held-for-trading derivatives, negative interest on financial assets, lease liabilities and net defined liabilities (net interest cost on severance payment, pension and jubilee obligations) under IAS 19.

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

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

2. Net interest income (continued)

	GROUP		BANK	
in HRK million	2021	2022	2021	2022
Interest income				
Financial assets at AC	1,957	2,042	1,636	1,743
Financial assets at FVOCI	150	133	130	116
Other similar income				
Non-trading financial assets at fair value through profit or loss	1	1	1	1
Financial assets – held for trading	47	65	46	65
Other assets	100	108	-	-
Interest income from negative interest rates	7	10	8	10
Interest and other similar income	**2,262**	**2,359**	**1,821**	**1,935**
Interest expenses				
Financial liabilities measured at amortised cost	(204)	(170)	(157)	(121)
Other similar expense				
Financial liabilities – held for trading	(43)	(60)	(43)	(60)
Other liabilities	(2)	(2)	(2)	(2)
Interest expense from negative interest rates	(10)	(6)	(7)	(5)
Interest and other similar expense	**(259)**	**(238)**	**(209)**	**(188)**
Net interest income	**2,003**	**2,121**	**1,612**	**1,747**

An amount of HRK 45 million for the Group and HRK 38 million for the Bank (2021: HRK 61 million for the Group and HRK 53 million for the Bank) relating to impaired financial assets is included in interest income. In addition for 2022, modification losses of financial instruments allocated to Stage 1 in the amount of HRK 0.7 million for the Group and less than 0.1 million for the Bank (2021: HRK 0.3 milion for the Group and less than 0.1 million for the Bank) is reported in line item 'Interest income - Financial assets at AC'.

3. Net fee and commission income

Group earns fee and commission income from a diverse range of services that it provides to its customers.
Fee and commission income is accounted for in accordance with IFRS 15.

Group recognises revenue when it transfers control over a service to a customer. Fee and commission income is measured based on the consideration specified in the contract with a customer. The determination of the timing and amount of income recognition follows the five-step model of IFRS 15.

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

A contract with a customer that results in the recognition of a financial instrument in the Group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.
Fees and commission income that are integral to the effective interest rate of a financial instrument are in the scope of IFRS 9 and are included in the net interest income.

3. Net fee and commission income

in HRK million	GROUP				BANK			
	2021		2022		2021		2022	
	Income	Expenses	Income	Expenses	Income	Expenses	Income	Expenses
Securities	11	(2)	18	(2)	11	(2)	18	(2)
Own issues	6	-	8	-	6	-	8	-
Transfer orders	5	-	10	-	5	-	10	-
Securities Other	-	(2)	-	(2)	-	(2)	-	(2)
Asset management	24	(1)	22	(1)	24	(1)	22	(1)
Custody	11	(2)	13	(4)	9	(2)	12	(4)
Payment services	891	(226)	1,000	(280)	574	(181)	704	(245)
Card business	528	(186)	573	(239)	227	(151)	298	(211)
Other	363	(40)	427	(41)	347	(30)	406	(34)
Customer resources distributed but not managed	35	(1)	41	(1)	34	(1)	38	(1)
Collective investment	-	(1)	-	(1)	-	(1)	-	(1)
Insurance products	29	-	34	-	28	-	32	-
Building society brokerage	5	-	4	-	5	-	4	-
Foreign exchange transactions	1	-	2	-	1	-	2	-
Other	-	-	1	-	-	-	-	-
Lending business	75	(8)	77	(8)	53	(7)	58	(8)
Loan commitments given, Loan commitments received	24	(7)	19	(8)	7	(6)	8	(8)
Guarantees given, guarantees received	43	(1)	49	-	43	(1)	47	-
Other lending business	8	-	9	-	3	-	3	-
Other	21	(19)	28	(19)	8	-	8	(1)
Total fee and commission income and expenses	**1,068**	**(259)**	**1,199**	**(315)**	**713**	**(194)**	**860**	**(262)**
Net fee and commission income	**809**	**-**	**884**	**-**	**519**	**-**	**598**	**-**

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

Fees relating to financial assets and financial liabilities not measured at FVTPL for 2022 amount HRK 1,046 million for the Group and HRK 723 million for the Bank in income (2021: HRK 926 million for the Group and HRK 591 million for the Bank) and HRK 301 million for the Group and HRK 247 milion for the Bank in expense (2021: HRK 247 million for the Group and HRK 183 million for the Bank).

4. Dividend income

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

in HRK million	GROUP		BANK	
	2021	2022	2021	2022
Shareholdings in subsidiaries and associate	-	-	10	47
Financial assets at FVOCI	-	-	-	-
Non-trading financial assets at fair value through profit or loss	1	-	1	-
Dividend income	**1**	**-**	**11**	**47**

5. Net trading and fair value result

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

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

5. Net trading and fair value result (continued)

	GROUP		BANK	
in HRK million	**2021**	**2022**	**2021**	**2022**
Net trading result				
Securities and derivatives trading	1	6	1	6
Foreign exchange transactions	220	292	217	303
Net trading and fair value result	**221**	**298**	**218**	**309**

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

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

Changes in fair value (clean price) of non-trading financial assets at fair value through profit or loss, including gains and losses on derecognition, are reported under this line item.

	GROUP		BANK	
in HRK million	**2021**	**2022**	**2021**	**2022**
Result from measurement/sale of financial assets mandatorily at FVPL	4	(12)	6	(13)
Gains/losses from financial instruments measured at fair value through profit or loss	**4**	**(12)**	**6**	**(13)**

7. Rental income from investment properties & other operating leases

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

	GROUP		BANK	
in HRK million	**2021**	**2022**	**2021**	**2022**
Investment properties	-	1	-	-
Other operating leases	66	58	4	3
Rental income from investment properties & other operating leases	**66**	**59**	**4**	**3**

More detailed information about assets under operating lease is provided in Note 39 Property, equipment and Investment property.

8. General administrative expenses

Personnel expenses

Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions. They also include service cost for severance payments, pension and jubilee obligations and remeasurements of jubilee obligations. Other personnel expenses include remuneration of management and employees related to IFRS 2 Employee share program. More detailed information is provided in Note 51 Share based payment.

Other administrative expenses

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

Depreciation and amortisation

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

8. General administrative expenses

	GROUP		BANK	
in HRK million	2021	2022	2021	2022
Personnel expenses	**(779)**	**(860)**	**(581)**	**(670)**
Wages and salaries	(669)	(741)	(498)	(575)
Compulsory social security	(100)	(98)	(75)	(77)
Long-term employee provisions	(2)	(1)	(2)	(2)
Other personnel expenses	(8)	(20)	(6)	(16)
Other administrative expenses	**(611)**	**(699)**	**(457)**	**(550)**
Deposit insurance contribution	(14)	(57)	(5)	(45)
IT expenses	(228)	(247)	(221)	(251)
Expenses for office space	(85)	(90)	(69)	(75)
Office operating expenses	(128)	(147)	(60)	(75)
Advertising/marketing	(79)	(81)	(50)	(49)
Legal and consulting costs	(65)	(60)	(43)	(43)
Sundry administrative expenses	(12)	(17)	(9)	(12)
Depreciation and amortisation	**(250)**	**(246)**	**(143)**	**(154)**
Software and other intangible assets	(70)	(74)	(39)	(47)
Owner occupied real estate	(40)	(39)	(32)	(33)
Movable other property	(52)	(47)	-	-
Investment Properties	-	-	-	-
Office furniture and equipment and sundry property and equipment	(88)	(86)	(72)	(74)
General administrative expenses	**(1,640)**	**(1,805)**	**(1,181)**	**(1,374)**

The Group does not have pension arrangements separate from the State pension system of Croatia. This system requires that current contributions by the employer are calculated as a percentage of current gross salary payments; these expenses are charged to the statement of profit or loss in the period in which the related compensation is earned by the employee. In 2022 expense amount for pension contributions was HRK 112 million for the Group (2021: HRK 111 million) and HRK 94 million for the Bank (2021: HRK 81 million).
More detailed information about depreciation and amortisation is provided in Note 39 and Note 40.

Number of employees on a full time equivalent basis

	2021	2022
Erste&Steiermärkische Bank d.d.	2,411	2,490
Erste Card Club d.o.o.	241	225
Izbor Nekretnina d.o.o.	-	-
Erste Nekretnine d.o.o.	25	25
Erste Group IT HR d.o.o.	70	68
Erste bank Podgorica d.d.	295	301
Erste Card Slovenia d.o.o.	58	-
Erste&Steiermärkische S-Leasing d.o.o.	97	97
Total	**3,199**	**3,206**

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

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

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

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

	GROUP		BANK	
in HRK million	2021	2022	2021	2022
Sale of financial assets at FVOCI	-	1	-	1
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	**-**	**1**	**-**	**1**

10. Impairment result from financial instruments

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

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

	GROUP		BANK	
in HRK million	**2021**	**2022**	**2021**	**2022**
Financial assets at FVOCI	(9)	13	(8)	12
Financial assets at AC	8	501	31	450
Net allocation to credit loss allowances	(72)	392	(29)	367
Direct write-offs	(9)	(4)	(2)	(1)
Recoveries recorded directly to the income statement	90	113	63	84
Modification gains or losses	(1)	-	(1)	-
Finance lease receivables	(6)	18	-	-
Net allocation to credit loss allowances	(6)	18	-	-
Net allocation of credit loss allowances for loan commitments and financial guarantees given	(160)	(214)	(167)	(214)
Impairment result from financial instruments	**(167)**	**318**	**(144)**	**248**

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

	Credit loss allowances			GROUP
in HRK million	**Impairment result of financial instruments**	**Other changes through profit or loss**	**Changes not affecting profit or loss**	**Total**
Credit loss allowances Jan 22				**(3,453)**
Net allocation to credit loss allowances	181			181
Increase due to passage of time (unwinding correction)		(16)		(16)
Derecognition due to sales			41	41
Write-offs			466	466
Changes in scope of consolidation			(5)	(5)
Foreign exchange differences		(1)		(1)
Other		(8)		(8)
Credit loss allowances Dec 22				**(2,795)**
Impairment gain/(loss) from POCI without CLA	28			
Direct write-offs	(4)			
Recoveries recorded directly to the income statement	113			
Modification gains or losses	-			
Impairment result from financial instruments	**318**			

10. Impairment result from financial instruments (continued)

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

in HRK million	Credit loss allowances			GROUP
	Impairment result of financial instruments	Other changes through profit or loss	Changes not affecting profit or loss	Total
Credit loss allowances Jan 21				**(3,661)**
Net allocation to credit loss allowances	(318)			(318)
Increase due to passage of time (unwinding correction)		(21)		(21)
Derecognition due to sales			-	-
Write-offs			530	530
Changes in scope of consolidation			-	-
Foreign exchange differences		1		1
Other		16		16
Credit loss allowances Dec 21				**(3,453)**
Impairment gain/(loss) from POCI without CLA	71			
Direct write-offs	(9)			
Recoveries recorded directly to the income statement	90			
Modification gains or losses	(1)			
Impairment result from financial instruments	**(167)**			

in HRK million	Credit loss allowances			BANK
	Impairment result of financial instruments	Other changes through profit or loss	Changes not affecting profit or loss	Total
Credit loss allowances Jan 22				**(2,924)**
Net allocation to credit loss allowances	137			137
Increase due to passage of time (unwinding correction)		(8)		(8)
Derecognition due to sales			1	1
Write-offs			428	428
Changes in scope of consolidation			-	-
Foreign exchange differences		-		-
Other		(7)		(7)
Credit loss allowances Dec 22				**(2,373)**
Impairment gain/(loss) from POCI without CLA	28			
Direct write-offs	(1)			
Recoveries recorded directly to the income statement	84			
Modification gains or losses	-			
Impairment result from financial instruments	**248**			

in HRK million	Credit loss allowances			BANK
	Impairment result of financial instruments	Other changes through profit or loss	Changes not affecting profit or loss	Total
Credit loss allowances Jan 21				**(3,125)**
Net allocation to credit loss allowances	(274)			(274)
Increase due to passage of time (unwinding correction)		(13)		(13)
Derecognition due to sales			-	-
Write-offs			486	486
Changes in scope of consolidation			-	-
Foreign exchange differences		-		-
Other		2		2
Credit loss allowances Dec 21				**(2,924)**
Impairment gain/(loss) from POCI without CLA	70			
Direct write-offs	(2)			
Recoveries recorded directly to the income statement	63			
Modification gains or losses	(1)			
Impairment result from financial instruments	**(144)**			

11. Other operating result

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

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

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

	GROUP		BANK	
in HRK million	**2021**	**2022**	**2021**	**2022**
Other operating expenses	**(210)**	**(407)**	**(210)**	**(341)**
Allocation to other provisions	(101)	(243)	(100)	(178)
Other taxes	(2)	(2)	(1)	(1)
Recovery and resolution fund contributions	(26)	(35)	(26)	(34)
Impairment of goodwill	(48)	(125)	-	-
Impairment of investment in subsidiaries	-	-	(48)	(125)
Result from properties/movables/other intangible assets other than goodwill	(33)	(2)	(35)	(3)
Other operating income	**201**	**78**	**197**	**70**
Release of other provisions	184	53	182	53
Result from other operating expenses/income	17	25	15	17
Other operating result	**(9)**	**(329)**	**(13)**	**(271)**

In Result of properties / movable's / other intangible assets other than goodwill, the impairment losses of property, plant and equipment, investment property, intangible asset and foreclosed assets are included.
More detailed information about impairment of foreclosed asset is provided in Note 41 Other assets.

Recovery and Resolution Fund

In the line 'Recovery and resolution fund contributions' contributions to the national resolution funds payable in 2022 in the amount of HRK 35 million for the Group and HRK 34 million the Bank (2021: HRK 26 million) are disclosed. The contributions are based on the European Recovery and Resolution Directive, which, inter alia, establishes a financing mechanism for the resolution of credit institutions. According to these regulations, until 31 December 2024 the available financial means to resolution funds shall reach at least 1% of the amount of covered deposits of all the credit institutions authorized within the European Union. As a consequence, banks are required to contribute annually to a resolution fund

Impairment of goodwill and Impairment of investment in subsidiaries

For the Group, in the line item 'Impairment of goodwill' is presented recognised impairment loss on goodwill and and for the Bank, it is recognized in line 'Impairment of investment in subsidiaries' as impairment loss on investment in Erste Card Club d.o.o. for 2022 and 2021. For detailed infomation, please see Note 40 Intangible assets, Goodwill.

12. Income tax

Income tax comprises of current and deferred tax.

Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted by the statement of financial position date.

Deferred tax

Deferred tax is recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts as of the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, including deductible temporary differences arising from impairment in investments in subsidiaries and associates and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses can be utilised.
The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at balance sheet date and are expected to apply when the temporary differences are reversed. For the subsidiaries, the local tax environments are considered.

Deferred tax relating to items recognised in other comprehensive income is recognised in other comprehensive income and not in the statement of profit or loss.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to offset exists and the deferred taxes relate to the same taxation authority.

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

	GROUP		BANK	
in HRK million	**2021**	**2022**	**2021**	**2022**
Current tax expense / income	(196)	(393)	(164)	(353)
Current period	(196)	(393)	(164)	(353)
Deferred tax expense / income	(32)	22	(21)	35
Current period	(32)	22	(21)	35
Total	**(228)**	**(371)**	**(185)**	**(318)**

The following table reconciles the income taxes reported in the statement of profit or loss to the pre-tax profit/loss multiplied by the nominal Croatian tax rate of 18% (2021: 18%).

	GROUP		BANK	
in HRK million	**2021**	**2022**	**2021**	**2022**
Pre-tax profit	1,297	1,543	1,032	1,295
Income tax expense for the financial year at the domestic statutory tax rate	(232)	(277)	(186)	(233)
Impact of different foreign tax rates	4	-	-	-
Impact of tax-exempt earnings of investments and other tax-exempt income	2	4	2	9
Tax increases due to non-deductible expenses, additional business tax and similar elements	(2)	(7)	(1)	(3)
Tax income/(expense) attributable to other effects	-	(91)	-	(91)
Total	**(228)**	**(371)**	**(185)**	**(318)**
Effective tax rate	**18%**	**24%**	**18%**	**25%**

12. Income tax (continued)

In December 2022 the Government introduced the Law on Additional income tax (so-called windfall tax) recognised under the line Tax expense attributable to other effects. The Additional income tax is applicable only for one tax period, namely for the year 2022, to all companies regardless of the type of performed business activity with revenues in excess of HRK 300 million in 2022. The basis for calculating Additional income tax is the positive difference between the taxable profit for 2022 and the average taxable profit in periods 2018-2021 increased by 20%. The tax rate is 33% and the due tax should be paid until end of April 2023. Tax expense attributable to the Additional income tax for the Bank in 2022 amounts to HRK 91 million.

Major components of deferred tax assets and deferred tax liabilities

GROUP

in HRK million	Tax assets		Tax liabilities		Net variance 2022			
	As of Dec 2022	As of Dec 2021	As of Dec 2022	As of Dec 2021	Total	Through profit or loss	Through other equity	Through other compreh ensive income
Temporary differences related to the following items:								
Trading Assets / Liabilities and Designation at fair value through Profit or Loss	32	10	-	-	22	22	-	-
Financial assets at fair value through other comprehensive income	147	-	-	(31)	178	-	-	178
Financial assets at amortised cost & trade & other receivables	38	52	-	-	(14)	(14)	-	-
Property and equipment (useful life in tax law different)	-	-	(3)	(5)	2	2	-	-
Impairment of investments in subsidiaries	122	98	-	-	24	24	-	-
Long-term employee provisions (tax valuation different)	1	1	-	-	-	-	-	-
Other provisions (tax valuation different)	9	3	-	-	6	6	-	-
Tax loss carry-forward	-	-	-	-	-	-	-	-
Other	58	76	-	-	(18)	(18)	-	-
Effect of netting according IAS 12.71	(3)	(33)	3	33	-	-	-	-
Total deferred taxes	**404**	**207**	**-**	**(2)**	**200**	**22**	**-**	**178**
Current taxes	**7**	**-**	**(251)**	**(92)**	**(393)**	**(393)**	**-**	**-**
Total taxes	**411**	**207**	**(251)**	**(94)**	**(193)**	**(371)**	**-**	**178**

GROUP

in HRK million	Tax assets		Tax liabilities		Net variance 2021			
	As of Dec 2021	As of Dec 2020	As of Dec 2021	As of Dec 2020	Total	Through profit or loss	Through other equity	Through other compreh ensive income
Temporary differences related to the following items:								
Trading Assets / Liabilities and Designation at fair value through Profit or Loss	10	19	-	-	(9)	(9)	-	-
Financial assets at fair value through other comprehensive income	-	-	(31)	(78)	47	-	22	25
Financial assets at amortised cost & trade & other receivables	52	60	-	-	(8)	(8)	-	-
Property and equipment (useful life in tax law different)	-	-	(5)	(1)	-	-	-	-
Impairment of investments in subsidiaries	98	86	-	-	12	12	-	-
Long-term employee provisions (tax valuation different)	1	1	-	-	-	-	-	-
Other provisions (tax valuation different)	3	3	-	-	-	-	-	-
Tax loss carry-forward	-	26	-	-	(26)	(26)	-	-
Other	76	77	-	-	(1)	(1)	-	-
Effect of netting according IAS 12.71	(33)	(75)	33	75	-	-	-	-
Total deferred taxes	**207**	**197**	**(2)**	**(4)**	**15**	**(32)**	**22**	**25**
Current taxes	**-**	**123**	**(92)**	**(6)**	**(196)**	**(196)**	**-**	**-**
Total taxes	**207**	**320**	**(94)**	**(10)**	**(181)**	**(228)**	**22**	**25**

12.Income tax (continued)

								BANK
	Tax assets		Tax liabilities		Net variance 2022			
in HRK million	As of Dec 2022	As of Dec 2021	As of Dec 2022	As of Dec 2021	Total	Through profit or loss	Through other equity	Through other compreh ensive income
Temporary differences related to the following items:								
Trading Assets / Liabilities and Designation at fair value through Profit or Loss	32	10	-	-	22	22	-	-
Financial assets at fair value through other comprehensive income	140	-	-	(31)	171	-	-	171
Financial assets at amortised cost & trade & other receivables	13	13	-	-	-	-	-	-
Impairment of investments in subsidiaries	115	90	-	-	25	25	-	-
Long-term employee provisions (tax valuation different)	1	1	-	-	-	-	-	-
Other provisions (tax valuation different)	1	1	-	-	-	-	-	-
Tax loss carry-forward	-	-	-	-	-	-	-	-
Other	36	48	-	-	(12)	(12)	-	-
Effect of netting according IAS 12.71	-	(31)	-	31	-	-	-	-
Total deferred taxes	**338**	**132**	**-**	**-**	**206**	**35**	**-**	**171**
Current taxes	**-**	**-**	**(230)**	**(74)**	**(353)**	**(353)**	**-**	**-**
Total taxes	**338**	**132**	**(230)**	**(74)**	**(147)**	**(318)**	**-**	**171**

								BANK
	Tax assets		Tax liabilities		Net variance 2021			
in HRK million	As of Dec 2021	As of Dec 2020	As of Dec 2021	As of Dec 2020	Total	Through profit or loss	Through other equity	Through other compreh ensive income
Temporary differences related to the following items:								
Trading Assets / Liabilities and Designation at fair value through Profit or Loss	10	19	-	-	(9)	(9)	-	-
Financial assets at fair value through other comprehensive income	-	-	(31)	(75)	44	-	21	23
Financial assets at amortised cost & trade & other receivables	13	14	-	-	(1)	(1)	-	-
Impairment of investments in subsidiaries	90	77	-	-	13	13	-	-
Long-term employee provisions (tax valuation different)	1	1	-	-	-	-	-	-
Other provisions (tax valuation different)	1	1	-	-	-	-	-	-
Tax loss carry-forward	-	26	-	-	(26)	(26)	-	-
Other	48	46	-	-	2	2	-	-
Effect of netting according IAS 12.71	(31)	(75)	31	75	-	-	-	-
Total deferred taxes	**132**	**110**	**-**	**-**	**23**	**(21)**	**21**	**23**
Current taxes	**-**	**112**	**(74)**	**-**	**(164)**	**(164)**	**-**	**-**
Total taxes	**132**	**222**	**(74)**	**-**	**(141)**	**(185)**	**21**	**23**

On 19 June 2020, Erste factoring merged into the Bank, and Bank recognized deferred tax assets based on tax losses of Erste factoring. Total amount of recognized deferred tax assets amounted HRK 78 million out of which HRK 52 million was utilized at year-end 2020. As of 31 December 2020 deferred tax assets for tax losses carried forward amounted to HRK 26 million and during 2021 total amount of tax losses carried forward was utilized.

Financial instruments – Significant accounting policies

Accounting and measurement methods for financial instruments

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

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

i. Amortised cost and effective interest rate

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

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

The effective interest rate is used for recognition of interest income. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

1) Purchased or originated credit-impaired financial assets (POCI). For POCI financial assets, the credit-adjusted effective interest rate is applied to the amortised cost of the financial asset from initial recognition (see part 'Impairment of financial instruments'). The credit-adjusted interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the amortised cost of the financial asset that is purchased or originated credit-impaired financial asset. When calculating the credit-adjusted effective interest rate, the Group estimates the expected cash flows by considering expected credit losses as well.
2) Financial assets that are not purchased or originated credit-impaired but subsequently have become credit-impaired. For credit-impaired financial assets, the Group applies the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods as long as the asset remains credit-impaired (see part 'Impairment of financial instruments').

ii. Fair value

Fair value is defined as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Details on valuation techniques applied for fair value measurement and on the fair value hierarchy are disclosed in Note 22Fair value of financial instruments.

Initial recognition and measurement

i. Initial recognition

Financial instruments are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

Regular way (spot) purchases and sales of financial assets are recognized at the settlement date (settlement date accounting), which is the date when the asset is delivered. Settlement date accounting refers to the recognition of an asset on the day it is received by the Group; and the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the Group. Even when the settlement date method is used, for financial assets measured at fair value the change in FV is accounted for in respect of trade dates. The trade date is the date that the Group commits itself to purchase or sell an asset. Effect of fair value changes is recognized in profit or loss for financial assets measured at fair value through profit or loss or in other comprehensive income for financial assets measured at fair value through other comprehensive income.

ii. Initial measurement

Financial instruments are measured initially at their fair value including transaction costs that are directly attributable to the acquisition of financial instruments. In case of financial instruments at fair value through profit or loss, however, transaction costs are recognised directly in profit or loss. In most cases, the fair value at initial recognition equals the transaction price, i.e., the price transferred to originate or acquire a financial asset, or the price received to issue or incur a financial liability.

Classification and subsequent measurement of financial assets

In accordance with IFRS 9, the classification and subsequent measurement of financial assets depends on the following two criteria:

i. The business model for managing the financial assets – the assessment is focused on whether the financial asset is part of a portfolio in which the assets are held in order to collect contractual cash flows, to both collect the contractual cash flows and sell the assets or they are held in other business model.
ii. The cash flow characteristics of the financial assets – the assessment is focused on whether the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ('SPPI') on the principal amount outstanding. For further details refer to part 'Characteristics of contractual cash flows (SPPI test)' in this chapter.

Business models for managing the financial assets

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

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

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

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

Classification and subsequent measurement of financial assets (continued)

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

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

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

In accordance with IFRS 9 there are three business models defined:

_ Business model 'Hold to collect': The primary objective of this business model is to hold the financial asset in order to collect the contractual cash flows arising from it.
_ Business model 'Hold and Sell': The primary objective of this business model is that the financial asset is held in order to generate cash flows through both, collecting contractual cash flows and selling the financial asset.
_ Other business model (Trading and FVTPL portfolio): This model includes all financial assets that are not held within a business model whose objective is to hold assets in order to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. The objective of this model is maximising the cash flows by selling the financial assets. Typical example of such model is the 'held for trading' classification category.

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

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

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

Classification and subsequent measurement of financial assets (continued)

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

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

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

Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as measured at amortised cost, except for:
_ Financial liabilities at fair value through profit or loss
_ Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition
_ Financial guarantee contracts
_ Commitments to provide a loan at a below-market interest rate
_ Contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies.
Further details on financial liabilities are in the Note 16.

Impairment of financial instruments under IFRS 9

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

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

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

Impairment of financial instruments under IFRS 9 (continued)

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

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

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

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

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

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

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

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

Stages of credit quality of financial instruments

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

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

Impairment of financial instruments under IFRS 9 (continued)

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

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

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

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

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

Derecognition of financial instruments including treatment of contractual modifications

(i) Derecognition of financial assets
A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised when:
_ the contractual rights to receive cash flows from the asset have expired; or
_ the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either:
  _ it has transferred substantially all risks and rewards connected with ownership of the asset; or
  _ has neither transferred nor retained substantially all risks and rewards connected with ownership of the asset but has transferred control of the asset.

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

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

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

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

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

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

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

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

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

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

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

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

Other write-off triggers may result from decisions about no enforcement due to worthlessness of the claim/collateral or generally from assessment that the receivable is economically lost or, the non-recoverability and the timing and amounts of write-off crystallise during the collection process when it becomes evident that the amount due cannot be collected, e.g. due to ongoing bankruptcy proceedings. For more information on Forbearance please refer to Note 34 Restructuring, renegotiation and forbearance.

(iv) Derecognition of financial liabilities
A financial liability (or part of a financial liability) is derecognised, when and only when it is extinguished, when the obligation specified in the contract is discharged or cancelled or expired.

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

Significant accounting judgements, assumptions and estimates

Impairment of financial instruments
The expected credit loss impairment model is inherently based on judgement since it requires assessment of significant increase in credit risk and measurement of expected credit losses without providing detailed guidance. In respect of significant increase in credit risk, the Group has determined specific assessment rules consisting of qualitative information and quantitative thresholds. Another area of complexity relates to establishing groups of similar assets when credit risk deterioration has to be assessed on a collective basis before specific information is available at individual instrument level. Measurement of expected credit losses involves complex models relying on historical statistics of probabilities of default and loss rates in case of defaults, individual estimates of credit-adjusted cash flows and probabilities of various scenarios including forward-looking information. In addition, the life of the instruments has to be modelled in respect of behavioural life of revolving credit facilities.
Detailed disclosures are provided in chapter Risk management. For further information on the definition of default refer to Note 31 Measurement of expected credit loss.
The development of loan loss provisions is described in Note 32 Development of credit loss allowances.

Financial instruments held at amortised cost (AC)

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

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

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

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

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

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

13. Cash and cash balances

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

	GROUP		BANK	
in HRK million	**2021**	**2022**	**2021**	**2022**
Cash on hand	3,052	3,135	2,831	2,792
Cash balances at central banks	11,036	22,177	10,577	21,661
Other demand deposits	442	670	110	179
Cash and cash balances	**14,530**	**25,982**	**13,518**	**24,632**

For the Statement of Cash flow for the year ended 31 December 2022, cash and cash equivialents at the end of period 2022 and 2021 for the Group and for the Bank are equal to cash and cash balance

14. Financial assets at amortised cost

The line item 'Financial assets at amortised cost' is further broken down into 'Debt securities', 'Loans and advances to banks' and 'Loans and advances to customers'. For details regarding the development of credit loss allowances please refer to Note 32.

Debt securities

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

The analysis of the gross carrying amount (GCA) and of related credit loss allowances (CLA) of Group's and Bank's debt securities per impairment buckets as of 31 December 2022 and 31 December 2021 is provided in the table below.

									GROUP
	GCA				CLA				
in HRK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2022									
General governments	9,953	-	-	9,953	(5)	-	-	(5)	9,948
Credit institutions	76			76	-	-	-	-	76
Total	**10,029**	**-**	**-**	**10,029**	**(5)**	**-**	**-**	**(5)**	**10,024**

									GROUP
	GCA				CLA				
in HRK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2021									
General governments	4,940	-	-	4,940	(5)	-	-	(5)	4,935
Total	**4,940**	**-**	**-**	**4,940**	**(5)**	**-**	**-**	**(5)**	**4,935**

									BANK
	GCA				CLA				
in HRK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2022									
General governments	9,647	-	-	9,647	(2)	-	-	(2)	9,645
Credit institutions	76			76	-	-	-	-	76
Total	**9,723**	**-**	**-**	**9,723**	**(2)**	**-**	**-**	**(2)**	**9,721**

									BANK
	GCA				CLA				
in HRK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2021									
General governments	4,676	-	-	4,676	(2)	-	-	(2)	4,674
Total	**4,676**	**-**	**-**	**4,676**	**(2)**	**-**	**-**	**(2)**	**4,674**

For information about development of credit loss allowances refer to Note 32 Development of credit loss allowances, part 'Financial instruments held at amortised cost': table 'Movement in credit loss allowances – debt securities'.

There are no purchased or originated credit impaired (POCI) debt securities at AC as of 31 December 2022 and 31 December 2021.

14. Financial assets at amortised cost (continued)

Debt securities (continued)

Listed bonds issued by the Republic of Croatia, Republic of Slovenia, Republic of Slovakia, Republic of Poland and United States of America are fixed income debt securities denominated in HRK, EUR and USD. These bonds have maturities from 2023 to 2035 and bear coupon interest from 0.000% to 6.000% p.a.
The fair value of financial assets at amortized cost for the Group and the Bank is approximately HRK 631.9 million lower than their value as at 31 December 2022 (2021: HRK 20.2 million higher).

Loans and advances to banks

The analysis of the gross carrying amount (GCA) and of related credit loss allowance (CLA) of Group's and Bank's loans and advances to banks per impairment buckets as of 31 December 2022 and 31 December 2021 is provided in the table below:

									GROUP
	GCA				CLA				
in HRK million	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Carrying amount**
2022									
Central banks	2,450	-	-	2,450	(2)	-	-	(2)	2,448
Credit institutions	443	-	-	443	(1)	-	-	(1)	442
Total	**2,893**	**-**	**-**	**2,893**	**(3)**	**-**	**-**	**(3)**	**2,890**

									GROUP
	GCA				CLA				
in HRK million	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Carrying amount**
2021									
Central banks	3,879	-	-	3,879	(3)	-	-	(3)	3,876
Credit institutions	531	-	-	531	(1)	-	-	(1)	530
Total	**4,410**	**-**	**-**	**4,410**	**(4)**	**-**	**-**	**(4)**	**4,406**

									BANK
	GCA				CLA				
in HRK million	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Carrying amount**
2022									
Central banks	2,356	-	-	2,356	(1)	-	-	(1)	2,355
Credit institutions	244	-	-	244	(1)	-	-	(1)	243
Total	**2,600**	**-**	**-**	**2,600**	**(2)**	**-**	**-**	**(2)**	**2,598**

									BANK
	GCA				CLA				
in HRK million	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Carrying amount**
2021									
Central banks	3,794	-	-	3,794	(2)	-	-	(2)	3,792
Credit institutions	531	-	-	531	(1)	-	-	(1)	530
Total	**4,325**	**-**	**-**	**4,325**	**(3)**	**-**	**-**	**(3)**	**4,322**

For information about development of credit loss allowances refer to Note 32 Development of credit loss allowances, part 'Financial instruments held at amortised cost': table 'Movement in credit loss allowances – loans and advances to banks'.

There are no purchased or originated credit-impaired (POCI) AC loans and advances to banks at 31 December 2022 and 31 December 2021.

14. Financial assets at amortised cost (continued)

Loans and advances to customers

The analysis of the gross carrying amount (GCA) and of related credit loss allowances (CLA) of loans and advances to customers per impairment buckets as of 31 December 2022 and 31 December 2021 is provided in the table below:

											GROUP
	GCA					CLA					
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2022											
General governments	10,562	295	-	-	10,857	(11)	(12)	-	-	(23)	10,834
Other financial corporations	17	1	-	-	18	-	-	-	-	-	18
Non-financial corporations	16,357	7,418	781	209	24,765	(93)	(459)	(517)	(99)	(1,168)	23,597
Households	18,158	5,433	1,174	9	24,774	(77)	(228)	(782)	(1)	(1,088)	23,686
Total	**45,094**	**13,147**	**1,955**	**218**	**60,414**	**(181)**	**(699)**	**(1,299)**	**(100)**	**(2,279)**	**58,135**

											GROUP
	GCA					CLA					
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2021											
General governments	8,749	723	-	-	9,472	(12)	(15)	-	-	(27)	9,445
Other financial corporations	24	3	9	-	36	(1)	-	(9)	-	(10)	26
Non-financial corporations	13,812	5,149	1,126	200	20,287	(128)	(555)	(782)	(108)	(1,573)	18,714
Households	18,707	2,886	1,530	10	23,133	(100)	(181)	(1,048)	(2)	(1,331)	21,802
Total	**41,292**	**8,761**	**2,665**	**210**	**52,928**	**(241)**	**(751)**	**(1,839)**	**(110)**	**(2,941)**	**49,987**

											BANK
	GCA					CLA					
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2022											
General governments	10,241	295	-	-	10,536	(8)	(12)	-	-	(20)	10,516
Other financial corporations	87	1	-	-	88	-	-	-	-	-	88
Non-financial corporations	15,639	6,980	684	209	23,512	(85)	(422)	(457)	(99)	(1,063)	22,449
Households	15,491	4,889	1,027	9	21,416	(39)	(197)	(674)	(1)	(911)	20,505
Total	**41,458**	**12,165**	**1,711**	**218**	**55,552**	**(132)**	**(631)**	**(1,131)**	**(100)**	**(1,994)**	**53,558**

											BANK
	GCA					CLA					
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2021											
General governments	8,405	723	-	-	9,128	(9)	(15)	-	-	(24)	9,104
Other financial corporations	142	3	-	-	145	(1)	-	-	-	(1)	144
Non-financial corporations	13,205	4,809	1,004	200	19,218	(121)	(512)	(717)	(108)	(1,458)	17,760
Households	15,912	2,579	1,328	10	19,829	(57)	(156)	(899)	(2)	(1,114)	18,715
Total	**37,664**	**8,114**	**2,332**	**210**	**48,320**	**(188)**	**(683)**	**(1,616)**	**(110)**	**(2,597)**	**45,723**

For information about development of credit loss allowances refer to Note 32 Development of credit loss allowances, part ‘Financial instruments held at amortised cost’: table ‘Movement in credit loss allowances – loans and advances to customers’.

15. Trade and other receivables

	GROUP										
	GCA					CLA					
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2022											
General governments	129	1	-	-	130	(1)	-	-	-	(1)	129
Credit institutions	86	3	-	-	89	-	-	-	-	-	89
Other financial corporations	30	3	-	-	33	-	-	-	-	-	33
Non-financial corporations	565	136	46	1	748	(6)	(2)	(42)	(1)	(51)	697
Households	329	27	66	-	422	(14)	(2)	(57)	-	(73)	349
Total	**1,139**	**170**	**112**	**1**	**1,422**	**(21)**	**(4)**	**(99)**	**(1)**	**(125)**	**1,297**

	GROUP										
	GCA					CLA					
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2021											
General governments	251	82	-	-	333	(3)	(1)	-	-	(4)	329
Credit institutions	78	1	-	-	79	-	-	-	-	-	79
Other financial corporations	21	2	-	-	23	-	-	-	-	-	23
Non-financial corporations	437	34	83	1	555	(6)	(2)	(71)	-	(79)	476
Households	339	29	101	-	469	(16)	(3)	(87)	-	(106)	363
Total	**1,126**	**148**	**184**	**1**	**1,459**	**(25)**	**(6)**	**(158)**	**-**	**(189)**	**1,270**

	BANK										
	GCA					CLA					
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2022											
General governments	129	1	-	-	130	(1)	-	-	-	(1)	129
Credit institutions	82	3	-	-	85	-	-	-	-	-	85
Other financial corporations	23	1	-	-	24	-	-	-	-	-	24
Non-financial corporations	508	126	25	1	660	(4)	(2)	(23)	(1)	(30)	630
Households	3	7	22	-	32	-	-	(21)	-	(21)	11
Total	**745**	**138**	**47**	**1**	**931**	**(5)**	**(2)**	**(44)**	**(1)**	**(52)**	**879**

	BANK										
	GCA					CLA					
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2021											
General governments	117	82	-	-	199	(2)	(1)	-	-	(3)	196
Credit institutions	74	1	-	-	75	-	-	-	-	-	75
Other financial corporations	18	2	-	-	20	-	-	-	-	-	20
Non-financial corporations	358	31	50	1	440	(4)	(2)	(44)	-	(50)	390
Households	3	7	29	-	39	-	(1)	(27)	-	(28)	11
Total	**570**	**123**	**79**	**1**	**773**	**(6)**	**(4)**	**(71)**	**-**	**(81)**	**692**

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

For information about development of credit loss allowances refer to Note 32 Development of credit loss allowances, part ‘Financial instruments held at amortised cost’: table ‘Movement in credit loss allowances – trade and other receivables’

16. Financial liabilities measured at amortised costs

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

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

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

Deposits from banks

	GROUP		BANK	
in HRK million	**2021**	**2022**	**2021**	**2022**
Overnight deposits	172	213	172	224
Term deposits	6,129	6,235	2,838	2,664
Subordinated loan	226	226	226	226
Repurchase agreements	6	4,543	6	4,543
Deposits from banks	**6,533**	**11,217**	**3,242**	**7,657**

As at 31 December 2022, term deposits from banks include funding from related parties in amount HRK 4,344 million for the Group and HRK 1,062 million for the Bank (2021: HRK 4,166 million for the Group and HRK 1,059 million for the Bank) and supranational funding of HRK 1,505 million for the Group and HRK 1,023 million for the Bank (2021: HRK 1,800 million for the Group and HRK 1,349 million for the Bank).

As at 31 December 2022, the average maturity of the Group's debt from related parties is 4.2 years and the interest rate range is 0.74%-5.74% (2021: average maturity is 4.5 years and the interest rate range is 0.26% -2.11%.) The Bank's loans from related parties mature in 2025 and their interest rate is 1.36% plus 3-month EURIBOR.

As of December 31, 2022, the Bank's Repurchase agreements from related parties amount to HRK 1,246 million, which mature on January 2, 2023, and whose interest rate is 2.10%.

As at 31 December 2022, the subordinated loan received from related parties amounts HRK 226 million for the Group and the Bank (2021: HRK 226 million for the Group and the Bank). Subordinated loan is payable in 2024 and it's interest rate is 2.11% plus 3-month EURIBOR.

Subordinated loans (Tier 2) are included in capital instruments as regulated by the respective Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013. Impact on own funds ratio from Tier 2 instruments in 2022 is +0.17% (2021: +0.24%).

Subordinated loans, according to a contractual agreement, are only to be satisfied after the claims of other non-subordinated creditors in the case of liquidation or bankruptcy.

The Group and the Bank have not had any defaults of principal or interest or other breaches with respect to their subordinated liabilities during the year 2022 and 2021.

16. Financial liabilities measured at amortised costs (continued)

Deposits from customers

As at 31 December 2022, Deposits from customers include Group's funding from HBOR in amount HRK 1,225 million and Bank's funding from HBOR in amount HRK 1,189 million (2021: HRK 1,225 million for the Group and for the Bank).

	GROUP		BANK	
in HRK million	2021	2022	2021	2022
Overnight deposits	**49,186**	**65,750**	**46,925**	**63,009**
Savings deposits	3,582	5,823	3,582	5,823
Other financial corporations	-	-	-	-
Non-financial corporations	501	513	501	513
Households	3,081	5,310	3,081	5,310
Non-savings deposits	45,604	59,927	43,343	57,186
General governments	3,322	3,857	3,190	3,644
Other financial corporations	1,442	1,416	1,285	1,460
Non-financial corporations	17,335	23,545	16,402	22,322
Households	23,505	31,109	22,466	29,760
Term deposits	**19,082**	**18,448**	**18,002**	**17,404**
Deposits with agreed maturity	18,751	17,982	17,671	16,939
Savings deposits	16,554	16,073	16,071	15,658
Other financial corporations	1,192	2,013	1,187	1,991
Non-financial corporations	1,673	2,065	1,673	2,065
Households	13,689	11,995	13,211	11,602
Non-savings deposits	2,197	1,909	1,600	1,281
General governments	1,669	1,413	1,600	1,281
Other financial corporations	264	253	-	-
Non-financial corporations	256	243	-	-
Households	8	-	-	-
Deposits redeemable at notice	331	466	331	465
General governments	10	8	10	8
Other financial corporations	28	1	28	1
Non-financial corporations	183	162	183	162
Households	110	295	110	294
Repurchase agreements	**-**	**-**	**-**	**-**
General governments	-	-	-	-
Non-financial corporations	-	-	-	-
Deposits from customers	**68,268**	**84,198**	**64,927**	**80,413**
General governments	5,001	5,278	4,800	4,933
Other financial corporations	2,926	3,683	2,500	3,452
Non-financial corporations	19,948	26,528	18,759	25,062
Households	40,393	48,709	38,868	46,966
Other financial liabilities	**748**	**888**	**199**	**294**

16. Financial liabilities measured at amortised costs (continued)

Other financial libilities

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

Debt securities issued

The Bank issues bonds on the domestic and international capital markets in order to meet the Minimum Requirement for own funds and Eligible Liabilities (MREL). The Bank intends to continue issuing on the capital market, which will strengthen the Bank's independence in the financing structure. During 2022, no bond issue was required.

	GROUP		BANK	
in HRK million	2021	2022	2021	2022
Debt securities issued	4,010	3,646	4,010	3,646
Bonds	4,010	3,646	4,010	3,646
Debt securities issued	**4,010**	**3,646**	**4,010**	**3,646**

The analysis of the Debt securities issued as of 31 December 2022 and 31 December 2021 is provided in the table below:

2022	Currency	Nominal value EUR million	Nominal value HRK million	Interest	Issuance date	Maturity
Senior	HRK	-	300	1.50%	30.11.2018	30.11.2023
Senior Preferred	EUR	45	339	0.85%	5.2.2021	5.2.2026
Senior Preferred	EUR	400	3,014	0.84%	6.7.2021	6.7.2028
Total		**445**	**3,653**			

2021	Currency	Nominal value EUR million	Nominal value HRK million	Interest	Issuance date	Maturity
Senior	EUR	50	376	1.81%	30.11.2017	30.11.2022
Senior	HRK	-	300	1.50%	30.11.2018	30.11.2023
Senior Preferred	EUR	45	338	0.85%	5.2.2021	5.2.2026
Senior Preferred	EUR	400	3,007	0.84%	6.7.2021	6.7.2028
Total		**495**	**4,021**			

Financial instruments at fair value

FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

For recognition of gains and losses resulting from subsequent measurement of financial assets measured at fair value through profit or loss, the following applies:

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

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

Financial liabilities measured at fair value through profit or loss

Financial liabilities at fair value through profit or loss consist of financial liabilities held for trading. On the balance sheet, financial liabilities held for trading are reported under the line 'Financial liabilities held for trading', sub items 'Derivatives' and 'Other financial liabilities held for trading'.
For recognition of gains and losses resulting from subsequent measurement of financial liabilities measured at fair value through profit or loss, the following applies:

- Interest expense is reported in the line item 'Other similar expenses' under 'Net interest income' in the statement of profit or loss
- Changes in fair value (gains and losses) are recognised in profit or loss, and are reported, for financial liabilities held for trading in the line item 'Net trading result' in the statement of profit or loss
- Gains or losses resulting from derecognition are recognised in profit or loss, and reported, for financial liabilities held for trading in the line item 'Net trading result' in the statement of profit or loss.

17. Derivatives – held for trading

A derivative is a financial instrument or other contract with all three of the following characteristics:
- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying');
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- it is settled at a future date.

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

Derivative financial instruments are carried at fair value (dirty price) on the balance sheet, classified as financial instruments held for trading. They are reported in the line 'Derivatives' under the heading 'Financial assets/Financial liabilities held for trading'.
Derivatives are carried as assets if their fair value is positive and as liabilities if their fair value is negative. Changes in the fair value (clean price) of derivatives held for trading are reported in the statement of profit or loss under the line 'Net trading and fair value result'. Interest income/expense related to derivatives is reported in the statement of profit or loss in the line item 'Other similar income' or 'Other similar expenses' under 'Net interest income'.

						GROUP
	2021			2022		
in HRK million	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book	**8,524**	**67**	**56**	**3,995**	**190**	**172**
Interest rate	1,628	30	20	1,947	172	155
Foreign exchange	6,896	37	36	2,048	18	17
Derivatives held in the banking book	**601**	**3**	**-**	**1,349**	**3**	**3**
Foreign exchange	601	3	-	1,349	3	3
Total	**9,125**	**70**	**56**	**5,344**	**193**	**175**

						BANK
	2021			2022		
in HRK million	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book	**8,524**	**67**	**56**	**3,995**	**190**	**172**
Interest rate	1,628	30	20	1,947	172	155
Foreign exchange	6,896	37	36	2,048	18	17
Derivatives held in the banking book	**601**	**3**	**-**	**1,349**	**3**	**3**
Foreign exchange	601	3	-	1,349	3	3
Total	**9,125**	**70**	**56**	**5,344**	**193**	**175**

18. Other financial assets held for trading

	GROUP		BANK	
in HRK million	2021	2022	2021	2022
Debt securities	75	4	75	4
General governments	75	4	75	4
Other financial assets held for trading	**75**	**4**	**75**	**4**

Financial assets and liabilities held for trading are measured at fair value based on quoted prices. In circumstances where quoted market prices are not readily available, the fair value of those securities is estimated using the present value of future cash flows.
As of 31 December 2021, financial assets held for trading are treasury bills issued by the Croatian Ministry of Finance with maturity in 2022, and with interest rate of 0.000%. As of 31 December 2022, financial assets held for trading are Bonds of Republic of Austria with maturity in 2023, and with interest rate of 0.000%.

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

Financial assets mandatorily at FVPL

	GROUP		BANK	
in HRK million	**2021**	**2022**	**2021**	**2022**
Equity instruments	10	21	10	19
Debt securities	65	39	60	39
Other financial corporations	50	33	45	33
Non-financial corporations	15	6	15	6
Non-trading financial assets at fair value through profit or loss	**75**	**60**	**70**	**58**

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Non derivative financial assets are measured at fair value through other comprehensive income if both of the following conditions are met:
_ The financial asset is held within a business model whose objective is achieved by both, collecting contractual cash flows and selling financial assets; and
_ The contractual terms of financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

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

Debt instruments
_ Changes in fair value (gains and losses) are recognised in other comprehensive income, and reported under the line 'Fair value reserve of debt instruments' in the statement of comprehensive income
_ Interest income is recognised in profit or loss, by using effective interest rate method, and reported in the line item 'Interest income' under 'Net interest income' in the statement of profit or loss

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

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

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

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

The carrying amount of equity instruments at FVOCI (fair value through other comprehensive income) as at 31 December 2022 amounts to HRK 4 million for the Group and for the Bank (2021: HRK 4 million for the Group and for the Bank).

During year 2022, the derecognition of such instruments had no influence on the carrying amount as its fair value was nil and was triggered by closure of an entity. The cumulative fair value loss that was transferred from accumulated other comprehensive income into retained earnings upon such derecognition amounted to HRK 1 million (2021: HRK 111 million gain for the Group and HRK 95 million gain for the Bank).

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

The analysis of gross carrying amounts (GCA) and of related credit loss allowances (CLA) of Group's debt securities at FVOCI per impairment buckets as of 31 December 2022 is provided below:

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

GROUP

in HRK million	GCA				CLA						
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Amortised cost	Accumulated OCI changes	Fair value
2022											
General governments	7,524	1,313	-	8,837	(5)	(33)	-	(38)	8,799	(799)	8,000
Credit institutions	572	-	-	572	(16)	-	-	(16)	556	(13)	543
Non-financial corporations	189	455	-	644	-	(14)	-	(14)	630	(10)	620
Total	**8,285**	**1,768**	**-**	**10,053**	**(21)**	**(47)**	**-**	**(68)**	**9,985**	**(822)**	**9,163**

GROUP

in HRK million	GCA				CLA						
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Amortised cost	Accumulated OCI changes	Fair value
2021											
General governments	9,879	691	-	10,570	(7)	(32)	-	(39)	10,531	123	10,654
Credit institutions	749	-	-	749	(18)	-	-	(18)	731	23	754
Non-financial corporations	258	276	-	534	(3)	(21)	-	(24)	510	25	535
Total	**10,886**	**967**	**-**	**11,853**	**(28)**	**(53)**	**-**	**(81)**	**11,772**	**171**	**11,943**

BANK

in HRK million	GCA				CLA						
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Amortised cost	Accumulated OCI changes	Fair value
2022											
General governments	7,097	1,313	-	8,410	(2)	(33)	-	(35)	8,375	(755)	7,620
Credit institutions	572	-	-	572	(16)	-	-	(16)	556	(13)	543
Non-financial corporations	189	455	-	644	-	(14)	-	(14)	630	(10)	620
Total	**7,858**	**1,768**	**-**	**9,626**	**(18)**	**(47)**	**-**	**(65)**	**9,561**	**(778)**	**8,783**

BANK

in HRK million	GCA				CLA						
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Amortised cost	Accumulated OCI changes	Fair value
2021											
General governments	9,375	691	-	10,066	(4)	(32)	-	(36)	10,030	124	10,154
Credit institutions	750	-	-	750	(18)	-	-	(18)	732	23	755
Non-financial corporations	258	276	-	534	(3)	(21)	-	(24)	510	25	535
Total	**10,383**	**967**	**-**	**11,350**	**(25)**	**(53)**	**-**	**(78)**	**11,272**	**172**	**11,444**

21. Financial assets at fair value through other comprehensive income- debt securities (continued)

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

For information about development of credit loss allowances refer to Note 32 Development of credit loss allowances, part 'Financial assets at fair value through other comprehensive income – debt instruments': table 'Movement in credit loss allowances – debt instrument financial assets'

There are no purchased or originated credit impaired (POCI) debt securities at FVOCI as of 31 December 2022 and 31 December 2021.

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

Bonds of the Republic of Croatia are HRK, EUR and USD denominated fixed income debt securities listed at stock exchanges. These bonds have maturities from 2023 to 2033 and bear coupon interest from 0.250% to 6.000% p.a.

Bonds of Republic of Poland are fixed income debt securities denominated in USD and EUR and listed on stock exchanges. These bonds have maturity from 2023 to 2029 and bear coupon interest from 0.875% to 5.250% p.a. Bonds of Montenegro are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturity from 2025 to 2029 and bear coupon interest from 2.550% to 3.375% p.a. Bonds of Republic of Slovakia are fixed income debt securities denominated in USD and EUR and listed on stock exchanges. These bonds have maturities from 2023 to 2036 and bear coupon interest from 0.000% to 3.375% p.a. Bonds of Republic of Slovenia are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturities from 2031 to 2035 and bear coupon interest from 0.125% to 1.500% p.a. Bond of Republic of Latvia is a fixed income debt security denominated in EUR and listed on stock exchanges. That bond has the maturity in 2030 and bears coupon interest of 0.250% p.a. Bond of Republic of Ireland is a fixed income debt security denominated in EUR and listed on stock exchanges. That bond has the maturity in 2035 and bears coupon interest of 0.400% p.a. Bonds of United States of America are fixed income debt securities denominated in USD and listed on stock exchanges. These bonds have maturities from 2028 to 2031 and bear coupon interest from 0.750% to 3.125% p.a.

Also, in financial assets at fair value through other comprehensive income are bonds issued by European investment Bank with maturity from 2024 to 2025 and with coupon interest from 0.625% to 3.250% p.a., bond issued by EBRD denominated in USD with maturity in 2023 and bears coupon interest of 2.750% p.a.. bond issued by IBRD denominated in USD with maturity in 2024 and bears coupon interest of 1.500% p.a. and also bonds issued by KfW Bank denominated in USD with maturities from 2024 to 2025 and with coupon interest from 1.375% to 2.000% p.a.

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

Financial instruments – other disclosure matters

22. Fair value of assets and liabilities

Fair values of financial instruments

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

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

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

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

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

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

Equity instruments
Non-trading equity instruments which have quoted market prices in an active market are valued by using the quoted market price. For other investments in non-trading equity instruments the fair value is determined by standard valuation models using also unobservable input parameters. These models include the adjusted net asset value method, the simplified income approach, the dividend discount model and the comparable company multiple method.

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

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

22. Fair value of assets and liabilities (continued)

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

OTC-derivative financial instruments

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

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

Credit value adjustments (CVA) for counterparty risk and debt value adjustments (DVA) for the own default credit risk are applied to OTC derivatives. For the CVA the adjustment is driven by the expected positive exposure of all derivatives and the credit quality of the counterparty. DVA is driven by the expected negative exposure and the Bank's credit quality. The bank has implemented an approach, where the modelling of the expected exposure is based on option replication strategies. This modelling approach is considered for the most relevant portfolios and products. The methodology for the remaining entities and products is determined by market value plus add-on considerations. The probability of default of counterparties which are not traded in an active market is determined from internal PDs mapped to a basket of liquid titles being present in the central European market. Thereby market based valuation concepts have been incorporated. Counterparties with liquid bond markets are valued by the respective single-name market based PD derived from the prices. The Bank's probability of default has been derived from the buy-back levels of the Bank's issuances.

According to the described methodology the amount of cumulative CVA-adjustment was HRK 394 thousand as at 31 December 2022 (2021: HRK 2 million) and the total amount of DVA-adjustment amount was HRK 8 million as at 31 December 2022 (2021: HRK 1 million).

Validation and control

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

Fair value hierarchy

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

Level 1 of the fair value hierarchy

The fair value of financial instruments assigned to Level 1 of the fair value hierarchy is determined based on quoted prices in active markets for identical financial assets and liabilities. More particular, the evaluated fair value can qualify as a Level 1 if transactions occur with sufficient frequency, volume and pricing consistency on an ongoing basis.

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

22. Fair value of assets and liabilities (continued)

Level 2 of the fair value hierarchy

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

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

Level 3 of the fair value hierarchy

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor on the basis of valuation models that rely entirely on observable market data. In these cases, individual valuation parameters not observable in the market are estimated on the basis of reasonable assumptions. If any unobservable input in the valuation model is significant or the price quote used is updated infrequently the instrument is classified as Level 3 of the fair value hierarchy. For Level 3 valuations , typically credit spreads are used as unobservable parameters. Furthermore, internally calculated cost of equity and adjustments made on the equity (in the adjusted net asset value method) are unobservable parameters for the valuation of non-trading equity instruments.

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

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

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

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

								GROUP
	2021				2022			
in HRK million	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Financial assets HFT	-	145	-	145	4	193	-	197
Derivatives	-	70	-	70	-	193	-	193
Other financial assets HFT	-	75	-	75	4	-	-	4
Non-trading financial assets – FVPL	27	-	48	75	30	-	30	60
Equity instruments	-	-	10	10	13	-	8	21
Debt securities	27	-	38	65	17	-	22	39
Financial assets – FVOCI	10,876	695	376	11,947	6,827	2,252	88	9,167
Equity instruments	-	-	4	4	-	2	2	4
Debt securities	10,876	695	372	11,943	6,827	2,250	86	9,163
Total assets	**10,903**	**840**	**424**	**12,167**	**6,861**	**2,445**	**118**	**9,424**
Liabilities								
Financial liabilities HFT	-	56	-	56	-	175	-	175
Derivatives	-	56	-	56	-	175	-	175
Total liabilities	**-**	**56**	**-**	**56**	**-**	**175**	**-**	**175**

22. Fair value of assets and liabilities (continued)

BANK

in HRK million	2021 Level 1	2021 Level 2	2021 Level 3	2021 Total	2022 Level 1	2022 Level 2	2022 Level 3	2022 Total
Assets								
Financial assets HFT	-	145	-	145	4	193	-	197
Derivatives	-	70	-	70	-	193	-	193
Other financial assets HFT	-	75	-	75	4	-	-	4
Non-trading financial assets – FVPL	22	-	48	70	30	-	28	58
Equity instruments	-	-	10	10	13	-	6	19
Debt securities	22	-	38	60	17	-	22	39
Financial assets – FVOCI	10,454	695	299	11,448	6,519	2,252	16	8,787
Equity instruments	-	-	4	4	-	2	2	4
Debt securities	10,454	695	295	11,444	6,519	2,250	14	8,783
Total assets	**10,476**	**840**	**347**	**11,663**	**6,553**	**2,445**	**44**	**9,042**
Liabilities								
Financial liabilities HFT	-	56	-	56	-	175	-	175
Derivatives	-	56	-	56	-	175	-	175
Total liabilities	**-**	**56**	**-**	**56**	**-**	**175**	**-**	**175**

Valuation process for financial instruments categorised as Level 3

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

Transfer of Level 1 and Level 2

These tables show the transfer of Level 1 and Level 2 of financial instruments measured at fair value in the statement of financial position.

GROUP

In HRK million	2021 Transfer to Level 1	2021 Transfer to Level 2	2022 Transfer to Level 1	2022 Transfer to Level 2
Securities				
Transfer from Level 1	-	202	-	1,534
Transfer from Level 2	355	-	-	-
Transfer from Level 3	-	14	-	266
Purchases/sales/expiries	667	(102)	27	234
Total year-to-date change	**820**	**(241)**	**(1,506)**	**2,034**

BANK

In HRK million	2021 Transfer to Level 1	2021 Transfer to Level 2	2022 Transfer to Level 1	2022 Transfer to Level 2
Securities				
Transfer from Level 1	-	202	-	1,534
Transfer from Level 2	355	-	-	-
Transfer from Level 3	-	14	-	266
Purchases/sales/expiries	861	(102)	27	234
Total year-to-date change	**1,014**	**(241)**	**(1,506)**	**2,034**

22. Fair value of assets and liabilities (continued)

Movements in Level 3 of financial instruments carried at fair value

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

GROUP

in HRK million	As of Jan 2022	Gain/(loss) in P&L	Gain/(loss) in OCI	Purchases	Sales	Transfers into Level 3	Transfers out of Level 3	Settle-ments	Currency translation	As of Dec 2022
Assets										
Non-trading financial assets – FVPL	48	(6)	-	14	(13)	-	(13)	-	-	30
Equity instruments	10	(3)	-	14	-	-	(13)	-	-	8
Debt securities	38	(3)	-	-	(13)	-	-	-	-	22
Financial assets – FVOCI	376	7	(12)	-	(16)	-	(268)	-	1	88
Equity instruments	4	-	-	-	-	-	(2)	-	-	2
Debt securities	372	7	(12)	-	(16)	-	(266)	-	1	86
Total assets	**424**	**1**	**(12)**	**14**	**(29)**	**-**	**(281)**	**-**	**1**	**118**

GROUP

in HRK million	As of Jan 2021	Gain/(loss) in P&L	Gain/(loss) in OCI	Purchases	Sales	Transfers into Level 3	Transfers out of Level 3	Settle-ments	Currency translation	As of Dec 2021
Assets										
Non-trading financial assets – FVPL	35	7	-	6	-	-	-	-	-	48
Equity instruments	10	(1)	-	1	-	-	-	-	-	10
Debt securities	25	8	-	5	-	-	-	-	-	38
Financial assets – FVOCI	263	(3)	6	-	(133)	268	(14)	(12)	1	376
Equity instruments	128	-	7	-	(133)	2	-	-	-	4
Debt securities	135	(3)	(1)	-	-	266	(14)	(12)	1	372
Total assets	**298**	**4**	**6**	**6**	**(133)**	**268**	**(14)**	**(12)**	**1**	**424**

BANK

in HRK million	As of Jan 2022	Gain/(loss) in P&L	Gain/(loss) in OCI	Purchases	Sales	Transfers into Level 3	Transfers out of Level 3	Settle-ments	Merger	As of Dec 2022
Assets										
Non-trading financial assets – FVPL	48	(7)	-	13	(13)	-	(13)	-	-	28
Equity instruments	10	(4)	-	13	-	-	(13)	-	-	6
Debt securities	38	(3)	-	-	(13)	-	-	-	-	22
Financial assets – FVOCI	299	7	(6)	-	(16)	(268)	-	-	-	16
Equity instruments	4	-	-	-	-	(2)	-	-	-	2
Debt securities	295	7	(6)	-	(16)	(266)	-	-	-	14
Total assets	**347**	**-**	**(6)**	**13**	**(29)**	**(268)**	**(13)**	**-**	**-**	**44**

22. Fair value of assets and liabilities (continued)

										BANK
in HRK million	As of	Gain/(loss) in P&L	Gain/(loss) in OCI	Purchases	Sales	Transfers into Level 3	Transfers out of Level 3	Settle-ments	Merger	As of
	Jan 2021									Dec 2021
Assets										
Non-trading financial assets – FVPL	35	7	-	6	-	-	-	-	-	48
Equity instruments	10	(1)	-	1	-	-	-	-	-	10
Debt securities	25	8	-	5	-	-	-	-	-	38
Financial assets – FVOCI	168	(3)	9	-	(117)	268	(14)	(12)	-	299
Equity instruments	111	-	8	-	(117)	2	-	-	-	4
Debt securities	57	(3)	1	-	-	266	(14)	(12)	-	295
Total assets	**203**	**4**	**9**	**6**	**(117)**	**268**	**(14)**	**(12)**	**-**	**347**

Unobservable inputs and sensitivity analysis for level 3 measurements

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

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

Financial assets	Type of instrument	Fair value	Valuation technique	Significant unobservable inputs	Range of unobservable inputs (weighted average)
31 December 2022					**GROUP**
Financial assets at fair value through other comprehensive income	Bonds and commercial papers	84	Discounted cash flow	Credit spread	1.76% - 6.46% (3.63)
Financial assets at FVPL	Funds	5	Net Asset Value	Equity	Depending on accounting equity of investment.
Financial assets at FVOCI / at FVPL	Non-trading equity instruments (participations)	4	Dividend Discount Model	Beta relevered	Industry: Insurance (General) 1.09
				Country risk premium	Croatia 2.13%, Resulting cost of equity based on above input: 11.52%
		2	Market comparable companies	EV / SALES, EV / EBITDA, P/B, P/S	Depending on industry classification according to Bloomberg Industry classification standard.
		1	Valution mix: DCF model, market comparable companies, P/B vs ROE	Beta relevered, Country risk premium	Beta relevered: 1.1, Country risk premium: Croatia 2.3 Serbia 2.7 Slovenia 0.8 BiH 4.3 Other 4.2
31 December 2021					**GROUP**
Financial assets at fair value through other comprehensive income	Bonds and commercial papers	103	Discounted cash flow	Credit spread	3.56% - 6.62% (4.40%)
Financial assets at FVOCI / at FVPL	Non-trading equity instruments (participations)	6	Dividend Discount Model	Beta relevered	Industry: Insurance (General) 1.07
				Country risk premium	Croatia 2.21%, Resulting cost of equity based on above input: 10.85%
		5	Market comparable companies	EV / SALES, EV / EBITDA, EV / EBIT, P/E, P/B, (P/S)	Depending on industry classification according to Bloomberg Industry classification standard.

22. Fair value of assets and liabilities (continued)

31 December 2022					**BANK**
Financial assets at fair value through other comprehensive income	Bonds and commercial papers	14	Discounted cash flow	Credit spread	6.46%
Financial assets at FVPL	Funds	5	Net Asset Value	Equity	Depending on accounting equity of investment.
Financial assets at FVOCI / at FVPL	Non-trading equity instruments (participations)	4	Dividend Discount Model	Beta relevered	Industry: Insurance (General) 1.09
				Country risk premium	Croatia 2.13%, Resulting cost of equity based on above input: 11.52%
		2	Market comparable companies	EV / SALES, EV / EBITDA, P/B, P/S	Depending on industry classification according to Bloomberg Industry classification standard.
		1	Valution mix: DCF model, market comparable companies, P/B vs ROE	Beta relevered, Country risk premium	Beta relevered: 1.1, Country risk premium: Croatia 2.3 Serbia 2.7 Slovenia 0.8 BiH 4.3 Other 4.2
31 December 2021					**BANK**
Financial assets at fair value through other comprehensive income	Bonds and commercial papers	28	Discounted cash flow	Credit spread	6.62% (6.62%)
Financial assets at FVOCI / at FVPL	Non-trading equity instruments (participations)	6	Dividend Discount Model	Beta relevered	Industry: Insurance (General) 1.07
				Country risk premium	Croatia 2.21%, Resulting cost of equity based on above input: 10.85%
		5	Market comparable companies	EV / SALES, EV / EBITDA, EV / EBIT, P/E, P/B, P/S	Depending on industry classification according to Bloomberg Industry classification standard.

For the remaining financial instruments in the amount of HRK 11 milion for the Group and for the Bank (2021: HRK 283 million for the Group and for the Bank) measured at fair value in Level 3, fair value is retrieved from observable input.

In estimating sensitivity impacts, mainly changes in credit spreads for bonds were considered. The ranges of reasonably possible alternatives of the unobservable inputs were considered in the sensitivity analysis for debt securities range of credit spreads between +100 basis points and - 75 basis points. Effect in other comprehensive income for positive fair value change is HRK 1.35 million and for negative HRK 1.80 million.

22. Fair value of assets and liabilities (continued)

Financial instruments not measured at fair value

The following table shows fair values and fair value hierarchy of financial instruments not measured at fair value for the year end 2022 and 2021.

					GROUP
2022	**Carrying amount**	**Fair value**	**Quoted market prices in active markets Level 1**	**Marked to model based on observable market data Level 2**	**Marked to model based on non-observable inputs Level 3**
in HRK million					
ASSETS					
Financial assets at AC	71,049	66,021	6,278	2,758	56,985
Loans and advances to banks	2,890	2,686	-	-	2,686
Loans and advances to customers	58,135	54,299	-	-	54,299
Debt securities	10,024	9,036	6,278	2,758	-
Finance lease receivables	3,018	2,819	-	-	2,819
Trade and other receivables	1,297	1,213	-	-	1,213
LIABILITIES					
Financial liabilities measured at amortised costs	99,949	99,487	3,025	340	96,122
Deposits from banks	11,217	11,061	-	-	11,061
Deposits from customers	84,198	83,877	-	-	83,877
Debt securities issued	3,646	3,665	3,025	340	300
Other financial liabilities	888	884	-	-	884
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	-	50	-	-	50
Irrevocable commitments	-	91	-	-	91

					GROUP
2021	**Carrying amount**	**Fair value**	**Quoted market prices in active markets Level 1**	**Marked to model based on observable market data Level 2**	**Marked to model based on non-observable inputs Level 3**
in HRK million					
ASSETS					
Financial assets at AC	59,328	60,042	4,955	-	55,087
Loans and advances to banks	4,406	4,436	-	-	4,436
Loans and advances to customers	49,987	50,651	-	-	50,651
Debt securities	4,935	4,955	4,955	-	-
Finance lease receivables	2,546	2,579	-	-	2,579
Trade and other receivables	1,270	1,286	-	-	1,286
LIABILITIES					
Financial liabilities measured at amortised costs	79,559	79,169	3,018	-	76,151
Deposits from banks	6,533	6,559	-	-	6,559
Deposits from customers	68,268	67,833	-	-	67,833
Debt securities issued	4,010	4,034	3,018	-	1,016
Other financial liabilities	748	743	-	-	743
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	-	(37)	-	-	(37)
Irrevocable commitments	-	15	-	-	15

22. Fair value of assets and liabilities (continued)

Financial instruments not measured at fair value (continued)

					BANK
2022	**Carrying amount**	**Fair value**	**Quoted market prices in active markets Level 1**	**Marked to model based on observable market data Level 2**	**Marked to model based on non-observable inputs Level 3**
in HRK million					
ASSETS					
Financial assets at AC	65,877	61,226	6,029	2,758	52,439
Loans and advances to banks	2,598	2,415	-	-	2,415
Loans and advances to customers	53,558	50,024	-	-	50,024
Debt securities	9,721	8,787	6,029	2,758	-
Trade and other receivables	879	821	-	-	821
LIABILITIES					
Financial liabilities measured at amortised costs	92,010	91,615	3,025	340	88,250
Deposits from banks	7,657	7,551	-	-	7,551
Deposits from customers	80,413	80,106	-	-	80,106
Debt securities issued	3,646	3,665	3,025	340	300
Other financial liabilities	294	293	-	-	293
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	-	46	-	-	46
Irrevocable commitments	-	77	-	-	77

					BANK
2021	**Carrying amount**	**Fair value**	**Quoted market prices in active markets Level 1**	**Marked to model based on observable market data Level 2**	**Marked to model based on non-observable inputs Level 3**
in HRK million					
ASSETS					
Financial assets at AC	54,719	55,380	4,698	-	50,682
Loans and advances to banks	4,322	4,352	-	-	4,352
Loans and advances to customers	45,723	46,330	-	-	46,330
Debt securities	4,674	4,698	4,698	-	-
Trade and other receivables	692	701	-	-	701
LIABILITIES					
Financial liabilities measured at amortised costs	72,378	72,000	3,018	-	68,982
Deposits from banks	3,242	3,255	-	-	3,255
Deposits from customers	64,927	64,513	-	-	64,513
Debt securities issued	4,010	4,034	3,018	-	1,016
Other financial liabilities	199	198	-	-	198
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	-	(33)	-	-	(33)
Irrevocable commitments	-	10	-	-	10

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

22. Fair value of assets and liabilities (continued)

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

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

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

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

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

23. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported on the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on net basis only when permitted under IFRS or for gain and losses arising from group of similar transactions such as in the Group's trading activity.

Financial assets subject to offsetting and potential offsetting agreements in 2022

							GROUP
				Potential effects of netting agreements not qualifying for statement of financial position offsetting			
in HRK million	Gross amounts in statement of financial position	Amounts set off against financial liabilities	Net amounts in statement of financial position	Financial instruments	Cash collateral received	Non-cash financial collateral received	Net amount after potential offsetting
Derivatives	193	-	193	(4)	-	-	189
Reverse repurchase agreements	57	-	57	-	-	(57)	-
Total	**250**	**-**	**250**	**(4)**	**-**	**(57)**	**189**

Financial liabilities subject to offsetting and potential offsetting agreements in 2022

							GROUP
				Potential effects of netting agreements not qualifying for statement of financial position offsetting			
in HRK million	Gross amounts in statement of financial position	Amounts set off against financial assets	Net amounts in statement of financial position	Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	Net amount after potential offsetting
Derivatives	175	-	175	(4)	(5)	-	166
Repurchase agreements	4,543	-	4,543	-	-	(4,427)	116
Total	**4,718**	**-**	**4,718**	**(4)**	**(5)**	**(4,427)**	**282**

Financial assets subject to offsetting and potential offsetting agreements in 2022

							BANK
				Potential effects of netting agreements not qualifying for statement of financial position offsetting			
in HRK million	Gross amounts in statement of financial position	Amounts set off against financial liabilities	Net amounts in statement of financial position	Financial instruments	Cash collateral received	Non-cash financial collateral received	Net amount after potential offsetting
Derivatives	193	-	193	(4)	-	-	189
Reverse repurchase agreements	57	-	57	-	-	(57)	-
Total	**250**	**-**	**250**	**(4)**	**-**	**(57)**	**189**

Financial liabilities subject to offsetting and potential offsetting agreements in 2022

							BANK
				Potential effects of netting agreements not qualifying for statement of financial position offsetting			
in HRK million	Gross amounts in statement of financial position	Amounts set off against financial assets	Net amounts in statement of financial position	Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	Net amount after potential offsetting
Derivatives	175	-	175	(4)	(5)	-	166
Repurchase agreements	4,543	-	4,543	-	-	(4,427)	116
Total	**4,718**	**-**	**4,718**	**(4)**	**(5)**	**(4,427)**	**282**

23. Offsetting of financial instruments (continued)

Financial assets subject to offsetting and potential offsetting agreements in 2021

							GROUP
				Potential effects of netting agreements not qualifying for statement of financial position offsetting			
in HRK million	Gross amounts in statement of financial position	Amounts set off against financial liabilities	Net amounts in statement of financial position	Financial instruments	Cash collateral received	Non-cash financial collateral received	Net amount after potential offsetting
Derivatives	70	-	70	(29)	-	-	41
Reverse repurchase agreements	412	-	412	-	-	(406)	6
Total	**482**	**-**	**482**	**(29)**	**-**	**(406)**	**47**

Financial liabilities subject to offsetting and potential offsetting agreements in 2021

							GROUP
				Potential effects of netting agreements not qualifying for statement of financial position offsetting			
in HRK million	Gross amounts in statement of financial position	Amounts set off against financial assets	Net amounts in statement of financial position	Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	Net amount after potential offsetting
Derivatives	56	-	56	(29)	(15)	-	12
Repurchase agreements	6	-	6	-	-	(6)	-
Total	**62**	**-**	**62**	**(29)**	**(15)**	**(6)**	**12**

Financial assets subject to offsetting and potential offsetting agreements in 2021

							BANK
				Potential effects of netting agreements not qualifying for statement of financial position offsetting			
in HRK million	Gross amounts in statement of financial position	Amounts set off against financial liabilities	Net amounts in statement of financial position	Financial instruments	Cash collateral received	Non-cash financial collateral received	Net amount after potential offsetting
Derivatives	70	-	70	(29)	-	-	41
Reverse repurchase agreements	412	-	412	-	-	(406)	6
Total	**482**	**-**	**482**	**(29)**	**-**	**(406)**	**47**

Financial liabilities subject to offsetting and potential offsetting agreements in 2021

							BANK
				Potential effects of netting agreements not qualifying for statement of financial position offsetting			
in HRK million	Gross amounts in statement of financial position	Amounts set off against financial assets	Net amounts in statement of financial position	Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	Net amount after potential offsetting
Derivatives	56	-	56	(29)	(15)	-	12
Repurchase agreements	6	-	6	-	-	(6)	-
Total	**62**	**-**	**62**	**(29)**	**(15)**	**(6)**	**12**

23. Offsetting of financial instruments (continued)

The Bank uses repurchase agreements and master netting agreements as a means of reducing credit risk of derivative and financing transactions. They qualify as potential offsetting agreements. Master netting agreements are relevant for counterparties with multiple derivative contracts. They provide for the net settlement of all the contracts in the event of default of any counterparty. For derivatives transactions the values of assets and liabilities which would be set off as a result of master netting agreements are presented in the column 'Financial instruments'.

Repurchase agreements are primarily financing transactions. They are structured as a sale and subsequent repurchase of securities at a preagreed price and time. This ensures that the securities remain in hands of lender as collateral in case the borrower defaults on fulfilling any of its obligations. Offsetting effects resulting from repurchase agreements are presented in the column 'Non-cash financial collateral received/pledged' respectively. Collateral is presented at fair value of the transferred securities. However, if fair value of collateral exceeds the carrying amount of the receivable/liability from the repo transaction the value is capped at the level of the carrying amount. Remaining position may be secured by cash collateral. Cash and non-cash financial collateral involved in these transactions is restricted from using it by the transferor during the time of the pledge. For further details regarding repurchase and reverse repurchase transactions refer to Note 24 Transfers of financial assets – repurchase transactions and securities lending.

24. Transfers of financial assets – repurchase transactions and securities lending

Repurchase and reverse repurchase agreements

A repurchase agreement is characterized by a sale and an obligation or right to repurchase the asset whereas the repurchase price has already been agreed at the time of contract conclusion.
Securities sold under an agreement to repurchase them at a specified future date are not derecognised from the balance sheet as the Group retains substantially all the risks and rewards of ownership.
The measurement category of financial asset transferred under the repurchase agreement does not change. The asset is presented separately under the original balance sheet item in the 'thereof pledged as collateral' lines.

The corresponding cash received is recognised on the balance sheet with a corresponding obligation to return it, under the line item 'Financial liabilities measured at amortised cost', sub-items 'Deposits from banks' or 'Deposits from customers' reflecting the transaction's economic substance as a loan to the Group.
The difference between the sale and repurchase prices is accrued over the life of the agreement and recognised as interest expense in profit or loss, reported in the line item 'Interest expenses' under 'Net interest income' in the statement of profit or loss.
Any income (coupon or dividend payment) on the underlying security received by the buyer during the period of the repo transaction is passed on to the Group.

Conversely, securities purchased under agreements to resell them at a specified future date (reverse repurchase agreement) are not recognised on the balance sheet. The consideration paid is recognised on the balance sheet under the line item 'Financial assets at amortised cost', sub-items 'Loans and advances to banks' and 'Loans and advances to customers' reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale price is accrued over the life of the agreement and recognised as interest income, reported in the statement of profit or loss in the line item 'Interest income' under 'Net interest income'.

		GROUP		
in HRK million	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
	2021		2022	
Repurchase agreements				
Financial assets at AC	-	-	2,748	2,709
Financial assets at FVOCI	6	6	1,723	1,834
Total – repurchase agreements	**6**	**6**	**4,471**	**4,543**

		BANK		
in HRK million	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
	2021		2022	
Repurchase agreements				
Financial assets at AC	-	-	2,748	2,709
Financial assets at FVOCI	6	6	1,723	1,834
Total – repurchase agreements	**6**	**6**	**4,471**	**4,543**

The transferred financial instruments consist of bonds.

The total amount of HRK 4,471 million (2021: HRK 6 million) for the Group and for the Bank represent the carrying amount of financial assets in the respective statement of financial position items for which the transferee has a right to sell or repledge.

Liabilities from repo transactions, which are measured at amortised cost, in the amount of HRK 4,453 million in 2022 (2021: HRK 6 million) for the Group and for the Bank represent an obligation to repay the borrowed funds.

24. Transfers of financial assets – repurchase transactions and securities lending (continued)

The following table shows the fair values of the transferred assets and associated liabilities that have recourse only on the transferred assets. In the Group and the Bank, these assets and liabilities relate to repo transactions.

						GROUP
in HRK million	Fair value of transferred assets	Fair value of associated liabilities	Net position	Fair value of transferred assets	Fair value of associated liabilities	Net position
		2021			2022	
Financial assets at AC	-	-	-	2,748	2,709	39
Financial assets at FVOCI	6	6	-	1,723	1,834	(111)
Total	**6**	**6**	**-**	**4,471**	**4,543**	**(72)**

						BANK
in HRK million	Fair value of transferred assets	Fair value of associated liabilities	Net position	Fair value of transferred assets	Fair value of associated liabilities	Net position
		2021			2022	
Financial assets at AC	-	-	-	2,748	2,709	39
Financial assets at FVOCI	6	6	-	1,723	1,834	(111)
Total	**6**	**6**	**0**	**4,471**	**4,543**	**(72)**

25. Financial assets pledged as collateral

The following financial assets were pledged as collaterals:

	GROUP		BANK	
in HRK million	2021	2022	2021	2022
Financial assets at amortised cost	1,722	4,094	1,722	4,094
of which debt securities	36	2,784	36	2,784
Financial assets at FVOCI	6	1,723	6	1,723
Total	**1,728**	**5,817**	**1,728**	**5,817**

The financial assets pledged as collateral consist of bonds and loans.
Collaterals were pledged as a result of repo transactions and collateralised deposits.

The fair value of collateral received which may be repledged or resold even without the collateral provider’s default was HRK 65 million for the Group and for the Bank (2021: HRK 417 million for the Group and for the Bank).

During 2022, the Bank was in process of frontloading of euro cash. Frontloading is process in which Croatian National Bank in cash centers supplies banks with euro cash before the date of introduction of the euro in accordance with the Law on the introduction of the euro as official currency in the Republic of Croatia. Before the start of frontloading, the Bank had obligation to give financial insurance to Croatian National Bank. With this financial insurance the amount of euro cash from frontloading is ensured, as well as the amount for the collection of the agreed fine in case of non-fulfillment of the obligation from the contract of frontloading or the contract of indirect frontloading. As of 31 December 2022 allocated amount of financial insurance amounted to HRK 2,355 million.

26. Securities

GROUP

in HRK million	Financial assets At AC	Financial assets Trading assets	Financial assets Mandato-rily at FVPL	Financial assets At FVOCI	Total 2021	Financial assets At AC	Financial assets Trading assets	Financial assets Mandato-rily at FVPL	Financial assets At FVOCI	Total 2022
Bonds and other interest-bearing securities	**4,935**	**75**	**65**	**11,943**	**17,018**	**10,024**	**4**	**39**	**9,163**	**19,230**
Listed	4,935	75	19	11,903	16,932	10,024	4	10	9,139	19,177
Unlisted	-	-	46	40	86	-	-	29	24	53
Equity-related securities	**-**	**-**	**10**	**4**	**14**	**-**	**-**	**21**	**4**	**25**
Listed	-	-	-	-	-	-	-	-	2	2
Unlisted	-	-	10	4	14	-	-	21	2	23
Equity holdings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**4,935**	**75**	**75**	**11,947**	**17,032**	**10,024**	**4**	**60**	**9,167**	**19,255**

BANK

in HRK million	Financial assets At AC	Financial assets Trading assets	Financial assets Mandato-rily at FVPL	Financial assets At FVOCI	Total 2021	Financial assets At AC	Financial assets Trading assets	Financial assets Mandato-rily at FVPL	Financial assets At FVOCI	Total 2022
Bonds and other interest-bearing securities	**4,674**	**75**	**60**	**11,444**	**16,253**	**9,721**	**4**	**39**	**8,783**	**18,547**
Listed	4,674	75	14	11,404	16,167	9,721	4	10	8,759	18,494
Unlisted	-	-	46	40	86	-	-	29	24	53
Equity-related securities	**-**	**-**	**10**	**4**	**14**	**-**	**-**	**19**	**4**	**23**
Listed	-	-	-	-	-	-	-	-	2	2
Unlisted	-	-	10	4	14	-	-	19	2	21
Equity holdings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**4,674**	**75**	**70**	**11,448**	**16,267**	**9,721**	**4**	**58**	**8,787**	**18,570**

Investment funds units are reported within bonds and other interest bearing securities.

Securities lending and repurchase transactions are disclosed in Note 24. Transfers of financial assets-repurchase transactions and securities lending.

Risk management

27. Risk management

Risk policy and strategy

It is a core function of every bank to take risks in a conscious and selective manner and to manage such risks professionally. The Group's proactive risk policy and strategy aims at achieving balanced risk and return in order to generate a sustainable and adequate return on equity.

The Group uses a risk management and control system that is proactive and tailored to its business and risk profile. It is based on a clear risk strategy that is consistent with the Group's business strategy and focused on early identification and management of risks and trends. In addition to meeting the internal goal of effective and efficient risk management, the Bank's risk management and control systems have been developed to fulfil external and, in particular, regulatory requirements.

Given the Bank's business strategy, the key risks for the Bank are credit risk, market risk, liquidity risk, and operational risk. The Bank also focuses on managing macroeconomic risks as well as concentrations within and across risk types. In addition, the Bank's control and risk management framework takes into account a range of other significant risks faced by the banking Group. The Bank always seeks to enhance and complement existing methods and processes, in all areas of risk management.

Risk management organisation

Risk monitoring and control is achieved through a clear organisational structure with defined roles and responsibilities, delegated authorities and risk limits.

The following chart presents an overview of the Bank's risk management, risk governance and responsibilities.

27. Risk management (continued)

Risk management organization (continued)

Overview of risk management structure

The Management Board, and in particular the Bank's Chief Risk Officer (CRO), must perform its oversight function within the Bank's risk management structure. Risk control and management functions within the Bank are performed based on the business and risk appetite approved by the Management Board. The CRO is responsible for the implementation of and adherence to the risk control and risk management strategies across all risk types and business lines.

The Management Board and in particular, the CRO ensure the availability of appropriate infrastructure and staff as well as methods, standards and processes to that effect. The actual identification, measurement, assessment, approval, monitoring, steering and limit setting for the relevant risks are performed at the operating entity level within the Bank.

The Management Board is supported by several divisions established to perform operating risk control functions and exercise strategic risk management responsibilities.

The following risk management functions report directly to the CRO:
- Credit Risk Management Division
- Risk Management Division
- Non-Financial Risk Division
- Corporate Security Division.

Corporate Credit Risk Management Department

The Corporate Risk Management Department within the Credit Risk Management Division implements credit risk management and monitors the balance of credit portfolios of clients that are categorized as belonging to the SME Division, Large Corporate Division, and according to the responsibilities set out in the relevant acts.

The Department analyses credit applications and based on them, issues opinion on the credit risk from the risk perspective. It analyses the projects and evaluates its eligibility for financing from the risk perspective. It also performs an analysis of the Bank's/Groups overall exposure to the client/group of connected customers, monitors early warning signals and controls early collection.

According to financial statements the Department prepares financial rating of a client as one of the components of final rating grade of a client.

Retail Credit Risk Management Department

Retail Risk Management Department within the Credit Risk Management Division manages credit risk and monitors the credit portfolio balance of clients from the Retail Sector. The Department analyses requests for credits and issues an opinion on them from the risk perspective. It performs an analysis of the projects and evaluates its eligibility for financing from the risk perspective. It also performs an analysis of the Bank's overall exposure to the client.

The Department follows Group standards within its scope, coordinates and creates local policies and procedures and monitors their fulfilment. The Department is responsible for organization of early collection process for retail clients as well as review of portfolio quality, in accordance with relevant acts.

Credit Risk Monitoring Department

Credit risk monitoring Department within the Credit Risk Management Division maintains and improves the credit process and its tools and applications for approving and monitoring of credit applications and as well as monitoring of overall exposure on product, client or portfolio level. The Department is responsible for defining rules for approval of credit exposure, approval and deviation analysis, approval competences, covenant monitoring, also maintenance and improvement of early warning signals system, set up and monitoring of limit utilization, system and rules for onboarding procedure of group of connected clients, early and late collection system.

27. Risk management (continued)

Risk management organization (continued)

The Department follows Group and regulatory standards within its scope of credit risk in corporate, retail and workout processes, initiates, coordinates and creates local policies and procedures and monitors their fulfilment in Bank and its subsidiaries. Also, the Department analyses portfolio and creates reports primarily for internal purposes..

Corporate Workout Department and Retail Work-out Department

Corporate Workout Department and Retail Work-out Department within the Credit Risk Management Division, which follow the business lines in the sales sectors, are in charge of managing and collection of non performing exposure by means of a continuous and systematic development of solutions to eliminate and reduce risks in dealing with work-out clients. They define appropriate collection strategies toward cliens or selected portfolios through distress restructurings or late collection process including litigation, pre-bancruptcy and bankruptcy proceedings, debt sale, debt settlements, write-offs or collection through repossessed asset. In line with expected collection and given methodology are responsible for Stage 3 provision calculation.

Risk Strategy and Reporting Department

The Risk Strategy and Reporting Department within the Risk Management Division takes part in the process of planning the activities of the Group and the Bank from the risk management point of view. It monitors the execution of risk management-related planned and strategically determined goals and plans, both of the Group and the Bank.

The Department monitors risk-related regulatory changes and group standards, initiates, coordinates and creates policies and other procedure, and monitors their fulfilment, all within its scope of activities prescribed by other acts. Also performs the analysis of the structure and quality of portfolios, and prepares reports on the structure and quality of portfolios. It proposes guidelines for the optimization of accepted risks, in order to improve certain asset classes, rating and collateral.
The Department also executes and creates reports related to credit risk with the prescribed dynamics, in compliance with legal regulations and standards of the Group and the Bank.
The Risk Strategy and Reporting Department, together with other departments and Bank organizational units, actively participates in the process of managing data quality and evaluating the adequacy of internal control systems.
Furthermore, the Department adopts policies and procedures that define collateral acceptability and valuation standards and oversee their implementation.

Quantitative Research Department

Quantitative Research Department (QRD) within the Risk Management Division is responsible for implementation of Basel standards, regulatory requirements and guidelines, as well as Erste Group standards with respect to internal rating-based approach for calculation of capital requirements for credit risk and enterprise-wide risk management.
QRD introduces, coordinates the development and participates in development, implementation and monitoring of different types of quantitative models as well as calculation of credit risk parameters which are used for measurement, segmentation and management of credit risks in line with best practice and group standards as well as implementation in the Bank’s processes (including constant enhancement of business processes connected with above mentioned calculations). This includes IRB models and IFRS9 methodology. QRD is responsible for efficiency of implemented models and performs calibration and participates in calibration of models in line with Erste Group principles and participates in validation of the same in collaboration with Erste Group. QRD also reports about the parameters and models and performs modelling of macroeconomic impact on risk models and Bank business as a whole.
QRD strives to achieve holistic approach in managing risks through enterprise-wide risk management. By defining risk strategy and Risk Appetite Statement which includes all risk departments, a framework for responsible and prudent risk taking is ensured. Enterprise-wide risk management encompasses Internal Capital Adequacy Assessment Process (ICAAP) which includes the identification of risks to which the Bank/EBC Group is exposed or might be exposed in the future and the assessment of economic capital adequacy. Identification of risks is performed through risk materiality assessment, concentration risk analysis and stress testing. Material risks are managed through calculation of regulatory and internal capital requirements and through the limit and control systems. QRD calculates the economic capital adequacy on a quarterly basis, i.e. coverage of internal capital requirements, for relevant risks, with internal capital. In addition, through enterprise-wide risk management QRD plans and manages the risk weighted assets, and participates in determination of price for different products using Expected Risk Margin (ERM) and cost of capital, participates in the process of profitability modelling, business model development and risk cost planning.

27. Risk management (continued)

Risk management organization (continued)

Quantitative Research Department (continued)

QRD is also responsible for the creation of the Recovery and Resolution Plan of EBC Group and participates in capital management within its field of responsibility.

Market and Liquidity Risk Management Department

Market and Liquidity Risk Management Department within the Risk Management Division, within the scope of its authority, performs all tasks necessary for market and liquidity risk management in compliance with the rulebooks and procedures related to its scope of authority.

It performs the analysis of the complex market situation, identifies and measures both market and liquidity risks and their parameters. Apart from the above-mentioned activities, the Department is also in charge of the implementation of the Basel II guidelines; it establishes measures for the reduction of risks within the scope of its authority and participates in the process of approving new products of the Financial Markets and Investment Banking Division. It also collaborates with other organizational units with the purpose of improving the quality of market and liquidity risk management.

Operational Risk Management Group

In operational risk management area, Operational Risk Management Group within Non-Financial Risk Division aims to control all organizational units and business processes within the Bank, having in mind that operational risk is characteristic to all activities, processes, products and Bank's systems based on defined Bank's risk profile, particularities of business environment and regulatory requests. It collaborates with other organizational units with the purpose of improvement the quality of managing operational risk.

Corporate Security Division

Corporate Security Division is in charge of conducting of tasks related to the security, adequate managing of information system and risk of information system, managing of continuity of operations and crisis management according to Group standards and local policies and standards.

The main objectives of the Division are development and implementation of a security of information system architecture, determination of security objectives in accordance with the Bank's information system strategy, information security policy management, standards, guidelines and other internal acts with a view to achieving and maintaining a satisfactory level of security.
The Division also continuously improves the corporate security incident management system as well as the implementation of new methodologies, tools and technologies to meet all the regulatory requirements and security standards required for the Bank's smoothly managed business. Division also in charge of reports on state of Bank security which are sent to the Management Board and the Supervisory Board.

Furthermore, the Division's objectives are security education and awareness raising of the Bank's employees. In addition, it takes care of the legality of processing personal data in the sense of respecting the General Data Protection Regulation and other regulations related to personal data processing and warns of the necessity of applying regulations on the protection of personal data in cases of actions that may have an impact on privacy and data protection.

Group-wide risk management

Overview

Enterprise wide Risk Management (ERM) includes as its fundamental component the Internal Capital Adequacy Assessment Process (ICAAP) as required under Pillar 2 of the Basel framework and regulatory guides (e.g. ECB Guide to ICAAP).
The ERM framework is designed to support the bank's management in managing the risk portfolios as well as coverage potential (internal capital) to assure adequate capital reflecting the nature and magnitude of the Bank's/EBC Group's risk profile. ERM is tailored to the business and risk profile of the Bank, and reflects the strategic goal of protecting shareholders and senior debt holders while ensuring sustainability of the Bank/EBC Group.

27. Risk management (continued)

Group-wide risk management (continued)

ERM is a modular and comprehensive management and steering system as well as an essential part of the overall steering and management instruments. The ERM components necessary to ensure all aspects, in particular to fulfill regulatory requirements and to provide an effective internal steering tool, can be clustered as follows:

_ Risk appetite statement (RAS), limits and risk strategy;
_ Portfolio and risk analysis through Risk materiality assessment (RMA), Concentration risk management and Stress testing;
_ Risk-bearing capacity calculation (RCC);
_ Capital allocation and performance management;
_ Planning of key risk indicators;
_ Recovery and resolution planning.

In addition, ERM department participates in the Capital Management Team with a purpose to maintain the appropriate quantity and quality of capital to support planned operations, while at the same time ensuring that regulatory requirements as well as investors' and stakeholders expectations are fully met. Capital is managed to maintain financial strength, absorb losses so as to withstand adverse economic conditions, allow for growth opportunities and meet risk management and business objectives.

In addition to the ICAAP's ultimate goal of assuring capital adequacy and sustainability at all times, the ERM components serve to support the Bank's/EBC Group's management in pursuing its strategy.

Risk Appetite Statement (RAS)

Risk appetite defines the maximum level of risk EBC Group is willing to accept in pursuing its business goals. The overall approach includes a risk appetite statement, risk limits, and the roles and responsibilities of those overseeing the implementation and monitoring of the risk appetite framework. Limit framework (i.e. risk appetite framework) of EBC Group includes risk limits set in Risk Appetite Statement and Risk Strategy, industry limits and maximum lending limits.

The EBC Group Risk Appetite Statement (RAS) represents a strategic statement that expresses the maximum level of risk that the EBC Group is willing to accept in order to deliver its business objectives. The Group RAS acts as a binding constraint to EBC Group's business activities within its overall risk appetite via triggers and limits approved by the management board and the risk committee of supervisory board and acknowledged by the supervisory board. It is integrated and embedded into EBC Group's structural processes; including business and risk strategy, budgeting process, capital and liquidity planning, recovery plan, stress testing and remuneration framework. The EBC Group RAS consists of a set of core risk metrics (capital, liquidity, risk/earnings) providing quantitative direction for overall risk-return steering and qualitative statements in the form of key risk principles that are part of the guidelines for managing risks.

The key objective of the EBC Group RAS is to:
_ ensure that EBC Group has sufficient resources to support its business at any given point in time and absorb stress events;
_ sets the boundary for the EBC Group' risk target setting;
_ support the group's financial strength and the robustness of its systems and controls.

Portfolio and risk analytics

EBC Group uses dedicated infrastructure, systems and processes to actively identify, measure, control, report and manage risks within its portfolio. Portfolio and risk analytics processes are designed to quantify, qualify and discuss risks in order to raise awareness to management in a timely manner.

The **risk materiality assessment** (RMA) determines the materiality of risk types and consequently the risk profile across the Bank and its entities. RMA is an annual process with the purpose of systematically identifying new and assessing all existing risks for EBC Group. Senior management may require to perform RMA on ad hoc basis in addition, in order to address changing operating environment or emerging risks (e.g. interim RMA performed in H1-22 due to Russia-Ukraine conflict). As such, the RMA is an integral part of the ICAAP and serves as a steering tool for senior management.

27. Risk management (continued)

Group-wide risk management (continued)

Insights generated by the assessment are used to improve risk management practices and further mitigate risks within the Group. The assessment also serves as input for the design and definition of the Group's risk strategy and Risk Appetite Statement. Key outputs and recommendations of the RMA are considered in the scenario design and selection of the comprehensive and reverse stress tests.

Stress testing
Modelling sensitivities of the ECB group's assets, liabilities and profit or loss provide management steering information and help to optimise EBC Group's risk-return profile. Stress tests help to factor in severe but plausible scenarios providing further robustness to measurement, steering and management. Risk modelling and stress testing are vital forward-looking elements of the ICAAP. Finally, sensitivities and stress scenarios are considered within the group's planning process.

EBC Group's most complex stress testing activities are scenario stress tests that take a comprehensive account of the impact of various economic scenarios, including second-round effects on all risk types (credit, market, liquidity and operational) and effects on the associated volumes of assets and liabilities as well as on profit and loss sensitivities. In addition to the standard scenario-driven stress testing exercises, reverse stress tests are performed to identify a scenario or a combination of scenarios in which viability of the current business model can be questioned.

EBC Group has developed specific tools to translate macroeconomic variables (e.g. GDP or unemployment rate) into risk parameters in order to support the stress testing process.

Risk-bearing Capacity Calculation
The Risk-bearing Capacity Calculation (RCC) describes the methodology of Pillar 2 capital adequacy calculation. In contrast to the normative (regulatory) view of Pillar 1, referring to the Group's ability to fulfil all of its capital-related regulatory and supervisory requirements and demands, the Risk-bearing Capacity Calculation (RCC) is based on an economic view of Pillar 1+ approach, assuming continuation of Erste Group as expected by the ECB Guide to ICAAP and determines whether the bank has sufficient capital for covering all (regulatory and economic) risks it is exposed to. Economic and normative perspectives at Erste Group are set in a way to mutually inform each other and are integrated into all material business steering activities and decisions. In addition, with applied Pillar 1+ approach the Group increases efficiency and ensures comparability with the Pillar 1 calculation. Based on the results of the RMA, the economic capital is considered for relevant risk types as approved by the management board. The economic capital requirement is then compared to internally available capital (coverage potential) to cover the Group's risks in Pillar 2. Both economic capital and coverage potential are computed on the CRR scope of consolidation of Erste Group as ultimate parent entity based on IFRS accounting standards.

In addition to Pillar 1 risk types (credit, market and operational risks), in the context of Pillar II, other risk types are also considered within the required economic capital through internal models (e.g. interest rate risk in the banking book, FX induced credit risk for retail, business risk) or via stress test (e.g. residual risk, macroeconomic risk etc.).

The management board and supervisory board (including risk committee of supervisory board) are briefed quarterly on the results of the ICAAP capital adequacy through the Group Risk Report and the Risk Dashboard. The former includes risk profile developments, available capital (coverage potential), consideration of potential losses in stress situations, the degree of the risk limit utilisation and the overall status of capital adequacy. The latter outlines risk profile development in relation to risk appetite.

Risk planning and forecasting
EBC Group Risk Planning framework is essential for the capital allocation and overall financial planning processes and supports the adequate reflection of risks within the strategy, steering and management processes of the group.

27. Risk management (continued)

Group-wide risk management (continued)

Key risk indicators covered by the Risk Planning framework include indicators that provide an overview of incurred or potential risks, with respect to both portfolio and economic environment developments. Indicators include RWA (and related indicators), port-folio quality indicators (impairments, NPL/NPE and relevant performance indicators etc.), as well as indicators required by the regulatory authorities under the responsibility of the Risk division.

Planning activities are performed in close cooperation with all stakeholders in the group´s overall process and follow a clear governance structure to ensure sound risk planning process.

Risk parameters and rating models

Internal specialist teams develop and continuously improve internal rating models and risk parameters in cooperation with risk managers. All Pillar 1 and 2, as well as IFRS9 models are subject of an annual review of their estimates, considering the inclusion of most recent data in the estimation of risk parameters, as well as a regular cycle of full model review. Model development follows an internal group-wide methodological standard and utilises relevant data covering the respective market. In this way, Erste Group ensures the availability of rating models with the best possible prediction and discriminatory ability across its core regions.

The IRB parameters update for Privates segment, in line with the new PD methodology, was performed in November 2022. In Q4 also regular update of IFRS9 parameters has been performed. The new rating models for corporate-SME clients and Group Corporate and Group Large Corporates were approved by the regulator during 2022 and are valid from January 2023.

Risk-weighted asset management

As risk weighted assets determine the actual regulatory capital requirement of the Bank/EBC Group and influence the capital ratio as a key performance indicator, particular emphasis is devoted to meeting targeted levels of RWA. Insights from monthly RWA analyses are used to improve the calculation infrastructure, the quality of input parameters and data, as well as the most efficient application of the Basel framework. The Bank has established a process of tracking, planning and defining target levels of RWA. The Bank's Management Board is regularly informed on the levels of RWA and adherence to the limits set within the Risk Appetite Statement (RAS).

Capital allocation

An important task integral to the risk planning process is the allocation of capital to EBC entities, business lines and segments. This is done via close cooperation between local Enterprise-wide Risk Management, Group Risk Management and Controlling. All insight from the ICAAP and controlling processes is used to allocate capital with a view to risk-return considerations.

Leverage ratio

The leverage ratio represents the relationship between core capital (Tier 1) and leverage exposure according to Article 429 CRR. Essentially, the leverage exposure represents the sum of unweighted on and off balance sheet positions considering valuation and risk adjustments as defined within the CRR. Management Board is informed on the level of leverage ratio for the Bank and EBC Group and on the adherence to defined limits and targets within the Risk Appetite Statement on a quarterly basis.

Recovery plan

In compliance with Act on the Resolution of Credit Institutions and Investment Firms, EBC Group Recovery Plan is submitted to Joint Supervisory Team (JST) as an annex to Erste Group Recovery Plan. The EBC Group Recovery Plan is regularly assessed by ECB and CNB. The EBC Group Recovery Plan identifies potential options for the replenishment of capital and liquidity resources of the bank in order to cope with a range of severe scenarios including both idiosyncratic and market-wide stress. The Recovery Framework is mainly reconciled with the Risk Appetite Framework across indicators and indicator thresholds, ensuring comprehensive enterprise-wide risk management. It is relevant to demonstrate that in a severe stress, which is close to a failing or likely to fail situation, there is sufficient recovery capacity available in order to be able to recover back into the recovery green zone. The recovery governance described in the plan ensures timely identification and proper management of a recovery situation of EBC Group. Furthermore, the assessment of the Group Recovery Plan and the assessment of the overall recovery capacity are part of the Supervisory Review and Evaluation Process (SREP) assessment.

27. Risk management (continued)

Group-wide risk management (continued)

Resolution plan and MREL

The Bank collaborates with the resolution authorities in the drawing up of resolution plans based on Act on the Resolution of Credit Institutions and Investment Firms and EU Regulation No 806/2014 establishing the Single Resolution Mechanism (SRM Regulation).

The legislative framework allows for a multiple-point-of-entry (MPE) or a single-point-of-entry (SPE) resolution strategy. The Resolution Authorities formed a joint decision in the resolution college for Erste Group which defines the MPE approach forming six separate resolution groups with Erste Group's core CEE subsidiaries and Austria, but with SPE approaches within a country. This results in having resolution groups in AT, CZ, HR, HU, RO and SK. Under the MPE strategy, Erste Group has more than one Resolution Entity Level which is the entry point for resolution. The resolution plans (including resolution strategy and MREL decisions) are regularly updated by the Resolution Authorities and subject to Joint Decision formed in a resolution college by Resolution College Members.

The Bank Recovery and Resolution Directive (BRRD) introduced the Minimum Requirement for own funds and Eligible Liabilities (MREL). MREL notifications are provided by the national resolution authorities on the level of resolution groups and relevant individual subsidiaries of resolution entities, reflecting the resolution strategy, based on the MREL joint decision taken by the resolution college. MREL requirements are expressed as a percentage of the total risk exposure amount (TREA) as well as leverage ratio exposure (LRE).

In May 2022, Erste Group received the Joint Decision determining the minimum requirement for own funds and eligible liabilities for the resolution group in Croatia. The requirement is set including binding intermediate requirements as of 1 January 2022 and binding final requirements as of 1 January 2024. Information on MREL targets have been published on the Banks' website based on the legal notification released by the Croatian National Bank. MREL metric is integrated into the RAS and Recovery Framework of Erste Group.

28. Credit risk review and monitoring

Definition and overview

Credit risk arises in the Bank's traditional lending and investment businesses. It involves both credit losses incurred as a result of borrowers' default (Stage 3) and expected credit losses (ECL) of non-defaulted borrowers calculated as 12-months ECL (Stage 1) or calculated as lifetime expected credit losses (Stage 2).
Operative credit decisions are made by the responsible credit risk management units.
With the goal of good risk management, all data relevant to credit risk management, performance management and determination of risk-weighted assets and the regulatory capital requirement are regularly input into central database used for credit risk management, while quality of data is regularly controlled.
Therefore, departments within Risk Management regularly use this database for credit risk reporting thereby providing centralised analysis and application of ratios according to unified methods and segmentation across the Bank and Group as a whole. The credit risk reporting comprises regular reports on credit portfolio for external and internal recipients and permits continuous monitoring of credit risk developments, thus enabling management to take control measures. In-house recipients of these reports include, above all, the Supervisory and Management Board as well as risk managers, business unit directors and internal audit staff.

28. Credit risk review and monitoring (continued)

Internal rating system

Overview

The Bank has in place business and risk strategies, as well as policies for lending and credit approval processes that are reviewed and adjusted regularly, at minimum on a yearly basis. They cover the entire lending business, taking into account the nature, scope and risk level of the transactions and the counterparties involved. Credit approval is also based on the creditworthiness of the customer, the type of credit, collateral, covenant package and other risk mitigation factors involved.
The assessment of counterparty default risk within the Bank is based on the customer's Probability of Default (PD). For each credit exposure and lending decision, the Bank assigns an internal rating, which is a unique measure of the counterparty default risk. The internal rating of each customer is updated at least on an annual basis (annual rating review). Ratings of customers in weaker rating classes are reviewed with higher frequency.

Besides setting of the capital requirements, the main purpose of the internal ratings is to support the decision-making for lending and for the terms of credit facilities. However, internal ratings also determine the level of decision-making authority within the Bank and the monitoring procedures for existing exposures. At a quantitative level, internal ratings drive the level of required risk pricing and risk allowances.

As mentioned before, internal ratings are the key element of the RWA calculation which is also used in the assessment of economic capital requirement according to Pillar 2 (ICAAP). PD values reflect the 12-month probability of default based on long-term average default rates. The Bank assigns margins of conservatism to the calculated PD depending on the granularity of portfolios and relevant data history. Calibration of PD values is validated annually in line with all the rating methods validations.

Internal ratings take into account all available essential information for the assessment of counterparty default risk. For non-retail borrowers, internal ratings take into account the financial strength of the counterparty, the possibility of external support and other company information. For retail clients, internal ratings are based mainly on behavioural and application scoring, but they also utilise demographic and financial information. Rating ceiling rules on credit quality are applied based on membership in a group of economically related entities and country of main economic activity.

All scorecards, both retail and non-retail, are regularly validated by the central validation unit based on Group-wide standard methodology. Validations are conducted using statistical techniques and the results of this validation process are reported to the management and regulatory bodies. The Bank complies with all Erste Group standards with respect to model development and maintenance process. All new models and modifications of existing models in the Group (rating models and risk parameters), as well as methodology standards, are reviewed by the respective organizational unit of Erste Holding which ensures Group-wide integrity and consistency of models and methodologies. Models are approved by Local Model Committee.

Credit risk classification

The classification of credit assets into risk grades is based on the Bank's internal ratings. The Bank uses two internal risk scales for risk classification: for customers that have not defaulted, a risk scale of 8 risk grades (for private individuals) and 13 risk grades (for all other segments) is used. Defaulted customers are classified into a separate risk grade.
For the purpose of external reporting, internal rating grades of the Bank are grouped into the following four risk categories:

Low risk: customers with well-established and rather long-standing relationships with the Bank and the Group or large internationally recognised customers. Clients with strong and good financial position and no foreseeable financial difficulties. Retail clients having long relationships with the Bank, or clients with a wide product pool use. No late payments currently or in the most recent 12 months. New business is generally done with clients in this risk category.

28. Credit risk review and monitoring (continued)

Management attention: customers that may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium-term. Retail clients with limited savings or probable payment problems in the past triggering early collection reminders.

Substandard: customers which are vulnerable to negative financial and economic developments.

Non-performing: customers who meet one or more of the default criteria according to Article 178 of Regulation (EU) No 575/2013 and Croatian National Bank bylaws, which are precisely defined by the Bank's internal documentation: full repayment unlikely, more than 90 days past due on a material exposure, restructuring resulting in a loss to the lender, realisation of a loan loss or initiation of bankruptcy proceedings. For purposes of analysing non-performing positions, the Bank applies the customer view for all customer segments, including Retail clients; if a customer defaults on one deal then the entire customer's performing transactions are classified as non-performing.

In the Bank, default status triggers the credit-impairment and the Stage 3 classification under IFRS9 (with more details in subsection Impairment of financial instruments under IFRS 9). Default is recognized when:
- the obligor is past due 90 consecutive days with any material credit obligation to the institution, the parent undertaking or any of its subsidiaries in full; and/or
- the obligor is considered unlikely to pay its credit obligation to the institution, the parent undertaking or any of its subsidiaries in full, in full without realisation of the collateral.

Credit monitoring
In order to manage credit risk timely, regular analysis of client's risks which includes current rating status, repayment ability, revision of collaterals and compliance with the contracted terms, repayment and other clauses through re-approvals is performed.
The Bank's goal is to timely recognize any decrease in the quality of credit portfolio which may have material losses for the Bank. The Bank through a re-approval process analyses a complete status of the debtor. The meaning of regular re-approval of credit exposures is an active follow-up on client and portfolio quality and it represents an additional measure of optimisation of credit risk exposure of the Bank.
The Bank performs evaluation of creditworthiness based on all information on client, also taking into consideration prior credit relationships between the Bank and the client.

Early detection of increased risk level
The Bank applies methods of early detection of increased credit risk level in order to make collection more successful even in the case of decrease in credit worthiness and decrease in the quality of credit portfolio. An increased level of credit risk on the level of respective client and portfolio is detected by following all relevant information and foreseen change of variables in the future period which primarily includes client's prior behaviour in obligations repayment and following market information. Therefore, increased level of credit risk is on the level of the Bank timely detected by following:
- Market conditions,
- Rating changes,
- Delays
- Monitoring of market conditions also involves monitoring of all macroeconomic variables as well as their evaluation in upcoming period.

29. Credit risk exposure

Credit risk exposure relates to the sum of the following balance sheet items:
- Other demand deposits to credit institutions;
- Debt instruments held for trading;
- Non-trading debt instruments at fair value through profit or loss (FVPL);
- Debt instruments at fair value through other comprehensive income (FVOCI);
- Debt instruments at amortised cost (AC),
- Trade and other receivables (for disclosure purposes in the tabular summaries below, any contract assets are also included in this category);
- Debt instruments held for sale in disposal groups;
- Finance lease receivables;
- Positive fair value of derivatives;
- Off-balance sheet credit risks (primarily financial guarantees and undrawn irrevocable credit commitments).

The credit risk exposure equates the gross carrying amount (or nominal value in the case of off-balance sheet positions) excluding:
- account loan loss allowances;
- provisions for guarantees;
- any collateral held (including risk transfer to guarantors);
- netting effects;
- other credit enhancements;
- credit risk mitigating transactions.

The following tables show the reconciliation between the gross carrying amount and the net carrying amount of the separate components of the Group’s and the Bank’s credit risk exposure as at 31 December 2022 and 31 December 2021.

29. Credit risk exposure (continued)

Reconciliation between the gross carrying amount and the net carrying amount of the credit risk exposure components

in HRK million	GROUP				BANK			
	Credit risk exposure	Credit loss allowances	FV adjustments	Net carrying amount	Credit risk exposure	Credit loss allowances	FV adjustments	Net carrying amount
2022								
Other demand deposits to credit institutions	670	-	-	670	179	-	-	179
Debt instruments held for trading	197	-	-	197	197	-	-	197
Non-trading debt instruments at FVPL	39	-	-	39	39	-	-	39
Debt securities	39	-	-	39	39	-	-	39
Debt instruments at FVOCI	10,053	(68)	(822)	9,163	9,626	(65)	(778)	8,783
Debt securities	10,053	(68)	(822)	9,163	9,626	(65)	(778)	8,783
Debt instruments at AC	73,336	(2,287)	-	71,049	67,875	(1,998)	-	65,877
Debt securities	10,029	(5)	-	10,024	9,723	(2)	-	9,721
Loans and advances to banks	2,893	(3)	-	2,890	2,600	(2)	-	2,598
Loans and advances to customers	60,414	(2,279)	-	58,135	55,552	(1,994)	-	53,558
Trade and other receivables	1,422	(125)	-	1,297	931	(52)	-	879
Finance lease receivables	3,063	(45)	-	3,018	-	-	-	-
Off balance-sheet exposures	17,920	(258)	-	-	15,968	(248)	-	-
Financial guarantees	5,518	(89)	-	-	5,080	(85)	-	-
Loan commitments	12,402	(169)	-	-	10,888	(163)	-	-
Other commitments	-	-	-	-	-	-	-	-
Total	**106,700**	**(2,783)**	**(822)**	**85,433**	**94,815**	**(2,363)**	**(778)**	**75,954**

in HRK million	GROUP				BANK			
	Credit risk exposure	Credit loss allowances	FV adjustments	Net carrying amount	Credit risk exposure	Credit loss allowances	FV adjustments	Net carrying amount
2021								
Other demand deposits to credit institutions	442	-	-	442	110	-	-	110
Debt instruments held for trading	145	-	-	145	145	-	-	145
Non-trading debt instruments at FVPL	65	-	-	65	60	-	-	60
Debt securities	65	-	-	65	60	-	-	60
Debt instruments at FVOCI	11,853	(81)	90	11,943	11,350	(78)	94	11,444
Debt securities	11,853	(81)	90	11,943	11,350	(78)	94	11,444
Debt instruments at AC	62,278	(2,950)	-	59,328	57,321	(2,602)	-	54,719
Debt securities	4,940	(5)	-	4,935	4,676	(2)	-	4,674
Loans and advances to banks	4,410	(4)	-	4,406	4,325	(3)	-	4,322
Loans and advances to customers	52,928	(2,941)	-	49,987	48,320	(2,597)	-	45,723
Trade and other receivables	1,459	(189)	-	1,270	773	(81)	-	692
Finance lease receivables	2,604	(58)	-	2,546	-	-	-	-
Off balance-sheet exposures	11,095	(168)	-	11,095	9,297	(160)	-	9,297
Financial guarantees	4,933	(81)	-	-	4,413	(79)	-	-
Loan commitments	6,162	(87)	-	-	4,884	(81)	-	-
Other commitments	-	-	-	-	-	-	-	-
Total	**89,941**	**(3,446)**	**90**	**86,834**	**79,056**	**(2,921)**	**94**	**76,467**

Breakdown of credit risk exposure

On the next pages the credit risk volume is categorized in the following way:
_ exposure class and financial instrument;
_ industry and IFRS 9 treatment;
_ region and risk category;
_ business segment and risk category.

29. Credit risk exposure (continued)

Subsequently credit risk exposure is categorized by geographical segment and risk category and geographical segment and IFRS 9 treatment.
After that credit risk is categorized in the following way:
_ non-performing credit risk exposure by business segment and credit loss allowances;
_ credit risk exposure, forbearance exposure, and credit loss allowances;
_ financial instrument and collateral;
_ credit risk exposure neither past due nor credit impaired by financial instrument and risk category;
_ credit risk exposure past due and not impaired by financial instrument and collateralisation.

Credit risk exposure by industry and IFRS 9 treatment

							GROUP
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
2022							
Natural Resources & Commodities	2,070	1,022	112	3	3,207	57	3,264
Energy	38	5,287	9	1	5,335	520	5,855
Construction and building materials	3,628	1,215	201	41	5,085	1,258	6,343
Automotive	814	160	24	-	998	75	1,073
Cyclical Consumer Products	2,827	520	125	5	3,477	379	3,856
Non-Cyclical Consumer Products	2,054	171	132	15	2,372	337	2,709
Machinery	800	141	12	12	965	322	1,287
Transportation	5,378	502	72	8	5,960	35	5,995
TMT; Telecommunications, Media, Technology and Paper & Packaging	1,291	109	7	-	1,407	202	1,609
Healthcare & Services	2,109	187	65	1	2,362	322	2,684
Hotels, Gaming & Leisure Industry	4,253	2,060	194	71	6,578	85	6,663
Real Estate	5,163	487	76	57	5,783	29	5,812
Public Sector	27,550	2,283	-	-	29,833	4	29,837
Financial Institutions	2,843	8	1	-	2,852	265	3,117
Private Households	19,907	5,530	1,154	5	26,596	-	26,596
Total	**80,725**	**19,682**	**2,184**	**219**	**102,810**	**3,890**	**106,700**

							GROUP
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
2021							
Natural Resources & Commodities	3,330	210	140	2	3,682	-	3,682
Energy	2,206	98	12	-	2,316	7	2,323
Construction and building materials	3,322	311	233	44	3,910	-	3,910
Automotive	641	76	22	-	739	-	739
Cyclical Consumer Products	2,288	265	147	5	2,705	-	2,705
Non-Cyclical Consumer Products	1,971	320	206	27	2,524	-	2,524
Machinery	685	17	22	-	724	2	726
Transportation	5,349	490	121	8	5,968	-	5,968
TMT; Telecommunications, Media, Technology and Paper & Packaging	1,123	55	31	-	1,209	-	1,209
Healthcare & Services	1,368	416	86	3	1,873	-	1,873
Hotels, Gaming & Leisure Industry	2,371	3,781	275	59	6,486	2	6,488
Real Estate	2,744	282	128	58	3,212	3	3,215
Public Sector	24,569	2,185	-	-	26,754	75	26,829
Financial Institutions	2,915	7	2	-	2,924	121	3,045
Private Households	20,167	2,944	1,529	5	24,645	-	24,645
Other	60	-	-	-	60	-	60
Total	**75,109**	**11,457**	**2,954**	**211**	**89,731**	**210**	**89,941**

29. Credit risk exposure (continued)

Credit risk exposure by industry and IFRS 9 treatment (continued)

							BANK
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
2022							
Natural Resources & Commodities	1,944	989	106	3	3,042	57	3,099
Energy	-	5,156	8	1	5,165	517	5,682
Construction and building materials	3,090	906	185	41	4,222	1,185	5,407
Automotive	619	119	20	-	758	73	831
Cyclical Consumer Products	2,048	365	99	5	2,517	344	2,861
Non-Cyclical Consumer Products	1,695	107	123	15	1,940	316	2,256
Machinery	750	123	12	12	897	316	1,213
Transportation	4,795	394	47	8	5,244	26	5,270
TMT; Telecommunications, Media, Technology and Paper & Packaging	1,041	79	7	-	1,127	156	1,283
Healthcare & Services	1,697	142	35	1	1,875	302	2,177
Hotels, Gaming & Leisure Industry	4,100	1,790	123	71	6,084	73	6,157
Real Estate	5,019	415	69	57	5,560	27	5,587
Public Sector	26,380	2,276	-	-	28,656	4	28,660
Financial Institutions	2,207	6	1	-	2,214	305	2,519
Private Households	15,904	4,939	965	5	21,813	-	21,813
Total	**71,289**	**17,806**	**1,800**	**219**	**91,114**	**3,701**	**94,815**

							BANK
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
2021							
Natural Resources & Commodities	3,209	195	133	2	3,539	-	3,539
Energy	2,049	80	12	-	2,141	7	2,148
Construction and building materials	2,747	184	218	44	3,193	-	3,193
Automotive	501	43	18	-	562	-	562
Cyclical Consumer Products	1,376	188	99	5	1,668	-	1,668
Non-Cyclical Consumer Products	1,639	259	194	27	2,119	-	2,119
Machinery	642	6	22	-	670	2	672
Transportation	4,926	301	73	8	5,308	-	5,308
TMT; Telecommunications, Media, Technology and Paper & Packaging	915	38	31	-	984	-	984
Healthcare & Services	997	345	49	3	1,394	-	1,394
Hotels, Gaming & Leisure Industry	2,256	3,463	212	59	5,990	2	5,992
Real Estate	2,691	202	121	58	3,072	3	3,075
Public Sector	23,406	2,184	-	-	25,590	75	25,665
Financial Institutions	2,603	6	2	-	2,611	116	2,727
Private Households	16,093	2,597	1,255	5	19,950	-	19,950
Other	60	-	-	-	60	-	60
Total	**66,110**	**10,091**	**2,439**	**211**	**78,851**	**205**	**79,056**

29. Credit risk exposure (continued)

Credit risk exposure by region and risk category
The following table presents the credit risk exposure of the Group and the Bank divided by region and risk category as at 31 December 2022 and 31 December 2021.

Credit risk exposure by region and risk category

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2022					
Erste Group markets	**87,686**	**4,569**	**570**	**2,148**	**94,973**
Austria	799	8	-	-	807
Croatia	85,213	4,557	570	2,146	92,486
Serbia	4	3	-	2	9
Slovakia	1,654	-	-	-	1,654
Czech Republic	3	-	-	-	3
Hungary	13	1	-	-	14
Other EU countries	**3,931**	**23**	**7**	**3**	**3,964**
Other industrialised countries	**1,161**	**13**	**-**	**5**	**1,179**
Emerging markets	**3,705**	**2,516**	**135**	**228**	**6,584**
South Eastern Europe/CIS	3,473	2,515	135	228	6,351
Asia	223	-	-	-	223
Latin America	2	-	-	-	2
Middle East/Africa	7	1	-	-	8
Total	**96,483**	**7,121**	**712**	**2,384**	**106,700**
2021					
Erste Group markets	**70,707**	**5,127**	**884**	**2,872**	**79,590**
Austria	548	3	-	1	552
Croatia	68,721	5,121	884	2,870	77,596
Serbia	6	3	-	1	10
Slovakia	1,413	-	-	-	1,413
Czech Republic	15	-	-	-	15
Hungary	4	-	-	-	4
Other EU countries	**3,884**	**16**	**17**	**2**	**3,919**
Other industrialised countries	**517**	**3**	**-**	**5**	**525**
Emerging markets	**2,886**	**2,544**	**206**	**271**	**5,907**
Southeastern Europe/CIS	2,780	2,540	206	271	5,797
Asia	102	1	-	-	103
Latin America	-	-	-	-	-
Middle East/Africa	4	3	-	-	7
Total	**77,994**	**7,690**	**1,107**	**3,150**	**89,941**

29. Credit risk exposure (continued)

Credit risk exposure by region and risk category (continued)

					BANK
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2022					
Erste Group markets	**83,128**	**3,400**	**326**	**1,968**	**88,822**
Austria	562	8	-	1	571
Croatia	80,892	3,390	326	1,966	86,574
Serbia	4	1	-	1	6
Slovakia	1,654	-	-	-	1,654
Czech Republic	3	-	-	-	3
Hungary	13	1	-	-	14
Other EU countries	**3,732**	**19**	**7**	**2**	**3,760**
Other industrialised countries	**1,147**	**11**	**-**	**5**	**1,163**
Emerging markets	**576**	**471**	**1**	**22**	**1,070**
South Eastern Europe/CIS	450	471	1	22	944
Asia	117	-	-	-	117
Latin America	2	-	-	-	2
Middle East/Africa	7	-	-	-	7
Total	**88,583**	**3,901**	**334**	**1,997**	**94,815**
2021					
Erste Group markets	**66,730**	**3,808**	**593**	**2,603**	**73,734**
Austria	419	3	-	1	423
Croatia	64,874	3,805	593	2,601	71,873
Serbia	5	-	-	1	6
Slovakia	1,413	-	-	-	1,413
Czech Republic	15	-	-	-	15
Hungary	4	-	-	-	4
Other EU countries	**3,745**	**13**	**18**	**2**	**3,778**
Other industrialised countries	**513**	**2**	**-**	**5**	**520**
Emerging markets	**498**	**500**	**-**	**26**	**1,024**
Southeastern Europe/CIS	493	498	-	26	1,017
Asia	1	-	-	-	1
Latin America	-	-	-	-	-
Middle East/Africa	4	2	-	-	6
Total	**71,486**	**4,323**	**611**	**2,636**	**79,056**

29. Credit risk exposure (continued)

Credit risk exposure by business segment and risk category
The reporting segment of the Group and the Bank is based on the matrix organization by business segment and risk category. The following tables show the credit risk exposure of the Group and the Bank broken down by reporting segments and risk category as at 31 December 2022 and 31 December 2021.

Credit risk exposure by business segment and risk category

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2022					
Retail	23,382	4,175	508	1,292	29,357
Small and Medium Enterprises	21,492	996	105	791	23,384
Large Corporates	13,468	377	78	158	14,081
Public sector	11,008	350	-	3	11,361
Commercial Real Estate	3,968	1	21	132	4,122
Group Market Trading	152	-	-	-	152
Group Market Financial Institutions	1,281	20	-	-	1,301
Asset/Liability Management	21,497	1,200	-	-	22,697
Other	235	2	-	8	245
Total	**96,483**	**7,121**	**712**	**2,384**	**106,700**
2021					
Retail	20,455	4,281	591	1,698	27,025
Small and Medium Enterprises	16,207	1,353	282	1,049	18,891
Large Corporates	8,550	9	232	147	8,938
Public sector	9,703	519	-	4	10,226
Commercial Real Estate	1,870	349	2	234	2,455
Group Market Trading	248	15	-	-	263
Group Market Financial Institutions	1,056	7	-	-	1,063
Asset/Liability Management	19,610	1,155	-	-	20,765
Other	295	2	-	18	315
Total	**77,994**	**7,690**	**1,107**	**3,150**	**89,941**

29. Credit risk exposure (continued)

Credit risk exposure by business segment and risk category (continued)

					BANK
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2022					
Retail	19,625	2,556	237	1,051	23,469
Small and Medium Enterprises	19,210	758	68	705	20,741
Large Corporates	12,571	72	8	99	12,750
Public sector	10,928	29	-	2	10,959
Commercial Real Estate	3,959	-	21	132	4,112
Group Market Trading	152	-	-	-	152
Group Market Financial Institutions	1,272	18	-	-	1,290
Asset/Liability Management	20,682	466	-	-	21,148
Other	184	2	-	8	194
Total	**88,583**	**3,901**	**334**	**1,997**	**94,815**
2021					
Retail	17,195	2,567	274	1,373	21,409
Small and Medium Enterprises	13,712	875	103	873	15,563
Large Corporates	8,508	7	232	147	8,894
Public sector	9,478	40	-	4	9,522
Commercial Real Estate	1,868	348	2	229	2,447
Group Market Trading	248	15	-	-	263
Group Market Financial Institutions	1,047	5	-	-	1,052
Asset/Liability Management	19,279	464	-	-	19,743
Other	151	2	-	10	163
Total	**71,486**	**4,323**	**611**	**2,636**	**79,056**

The amount written off during 2022, which is still subject to enforcement activity, totals HRK 305 million for the Group and HRK 293 million for the Bank (2021: HRK 381 million for the Group and for the Bank).

30. Non-performing credit risk exposure and allowances for credit risks

In the 12 months period ended on 31 December 2022, the non-performing credit risk exposure in the Bank decreased by HRK 639 million from HRK 2.6 billion as at 31 December 2021 to HRK 2.0 billion as at 31 December 2022. During the same period, the non-performing credit risk exposure in the Group decreased by HRK 766 million, from HRK 3.2 billion as at 31 December 2021 to HRK 2.8 billion as at 31 December 2022.

Credit risk allowances were decreased by HRK 558 million in the Bank, from HRK 2.9 billion as at 31 December 2021 to HRK 2.4 billion as at 31 December 2022. The decrease of credit risk allowances in the Group was HRK 662 million from HRK 3.4 billion as at 31 December 2021 to HRK 2.8 billion as at 31 December 2022.

Coverage of the non-performing credit risk exposure by credit risk allowances in the Group increased from 109.4% up to 116.8% and in the Bank from 110.8% na 118.3%, which is under the influence of higher decrease of non-performing exposure relative to the decrease of credit loss allowances. Share of non-performing credit risk exposure in total credit risk exposure in the Group amounted to 2.2% (2021: 3.5%) and 2.1% in the Bank (2021: 3.3%).

31. Measurement of expected credit loss

The general principles and standards for credit risk allowances within the Bank follow the Erste Group's procedures, international standards and are described in internal policies.

The calculation of credit loss allowances is done on a monthly basis, on exposure/asset level, in the currency of the exposure. To calculate the loss allowance, Bank applies an expected credit loss (ECL) model based on a three stages approach that either leads to a 12-months ECL or to a Lifetime ECL.
The stage approach means that if the financial asset is not recognised as purchased or originated credit-impaired financial asset (POCI), i.e. financial asset which is credit-impaired at initial recognition, then depending on the impairment status and the assessment of the increase of credit risk, the financial asset is assigned into one of the following stages:

Classification into stages and definition of credit -impared financial instruments

Stage 1

It includes:
a) Financial assets at initial recognition, except:
i) POCI assets
ii) Assets the initial (on-balance) recognition of which is triggered by first usage of a binding loan commitment given to a counterparty for which a significant credit deterioration occurred since sign-up (initial recognition) of that loan commitment, but which is not in default at the time of such first usage
b) Financial assets which fulfil the low credit risk conditions;
c) Financial assets without significant increase in credit risk since initial recognition irrespective of their credit quality
In stage 1 the credit risk loss allowances are calculated as 12-months ECL.

Stage 2

It includes financial assets with a significant increase in credit risk, but not credit-impaired at the reporting date, including initially recognized assets described under 1) a) ii) above.
In stage 2 the credit risk loss allowances are calculated as lifetime ECL.

Stage 3

It includes financial assets which are credit-impaired at the reporting date. In principle, financial instrument becomes credit-impaired when customer meets one or more of the default criteria according to Article 178 of Regulation (EU) No 575/2013 and Croatian National Bank bylaws, more precisely defined in Internal rating system part.
In stage 3 the credit loss allowances are calculated as lifetime ECL.

POCI

POCI includes financial instruments that were credit-impaired at initial recognition, irrespective of whether they are still credit-impaired at the reporting date. Expected credit losses against POCI exposures are always calculated on a lifetime basis and are reflected in the credit-adjusted effective interest rate at initial recognition.

31. Measurement of expected credit loss (continued)

Quantitative criteria

Quantitative criteria for significant increase in credit risk (SICR) indicators include adverse changes in annualized lifetime probability of default and in lifetime probability of default with significance being assessed by reference to a mix of relative and absolute change thresholds. The bank has established thresholds for significant increases in credit risk based on both a percentage (relative) and absolute change in PD compared to initial recognition. SICR occurs for a particular financial instrument, when both the relative and the absolute thresholds are breached.

The relative measure is calculated as a ratio between current annualised LT PD and annualised LT PD value on initial recognition, considering remaining maturity of the instrument.

Relative thresholds for SICR assessment

	Threshold interval (x times)	
in EUR million	**Min**	**Max**
2022		
Erste&Steiermärkische Bank d.d.	1.13	3.13
Total	**1.13**	**3.13**
2021		
Erste&Steiermärkische Bank d.d.	1.13	3.13
Total	**1.13**	**3.13**

There are certain portfolios where SICR quantitative criteria are assessed based on the ratings rather than PDs. Predefined rating notches' downgrade leads to SICR recognition. These rules are applied primarily to leasing and factoring business receivables.

The absolute threshold refers to difference of LT PD on initial recognition and current LT PD. In the Bank it is set to a maximum of 50 bps and serves as a back-stop for migrations between the best ratings (LT PDs considered for remaining maturity). In such cases, relative thresholds may be breached, however overall LT PD is very low, and therefore SICR is not triggered.

For migration back to Stage 1 there are no additional cure periods established for quantitative criteria other than those already established in general credit risk practice (e.g. for rating improvement).

Qualitative criteria

Qualitative SICR indicators include forbearance-type flags (identification of regulatory forbearance), work-out transfer flags (when the account starts being monitored by the work-out department), information from the early-warning system (if it is not sufficiently considered in the rating) and fraud indicators. The assignment of some of the qualitative indicators inherently relies on experienced credit risk judgment being exercised adequately and in a timely manner. The related group-wide and entity-level credit risk controlling policies and procedures (adapted as necessary in the light of transition to IFRS 9) ensure the necessary governance framework. These indicators are used internally for identification of insolvency or increased probability that a borrower will enter bankruptcy and there is increased risk of default in the foreseeable future.

Besides the qualitative indicators defined on a client level, the assessment of a significant increase in credit risk is performed on a portfolio level if the increase in credit risk on individual instruments or at a client level is available only with a certain time lag or is observable exclusively on a portfolio level. We have introduced additional portfolio level SICR assessment criteria due to the war in Ukraine (implemented in 2022) and related economic impacts. Similarly, from 2020 till Q3-2022 portoflio assessment due to the Covid-19 was established.

For migration back to Stage 1 there is additional cure period for the portfolio which is being classified as Stage 2 due to the early-warning signal and it lasts 180 days.

31. Measurement of expected credit loss (continued)

Backstop

A backstop is applied and the financial instruments are considered to have experienced a SICR if the borrower is more than 30 days past due on contractual payments.

Low credit risk exemption

The 'low credit risk exemption' allowed by IFRS 9 for 'investment grade' assets or other assets deemed 'low risk' (and resulting in 12 months expected credit losses being calculated irrespective of SICR quantitative measures) has been implemented with limitations in the Group. Thus, the potential activation of this exemption is limited to particular types of debt instruments and counterparty categories, and only if supported by sufficient 'low risk' evidence. On this basis, the 'low risk exemption' is expected to occasionally apply to some debt security exposures and only exceptionally to loans. The Bank doesn't use 'low risk exemption' criteria for measuring a significant increase in credit risk.

Measuring ECL – explanation of inputs and measurement

Credit loss allowances are calculated individually or collectively.

The individual calculation approach is applied in case of exposures to significant defaulted customers in Stage 3 or POCI. It consists in the individual assessment of the difference between the gross carrying amount and the present value of the expected cash flows, which are estimated by workout or risk managers. The discounting of the cash flows is based on the effective interest rate (POCI: credit-adjusted effective interest rate).

A defaulted customer is classified as individually significant if the total on- and off-balance exposure exceeds a predefined materiality limit. Otherwise, the customer is considered insignificant and a rule-based (collective) approach is used for the calculation of the related credit loss allowance as the product of gross carrying amount and LGD, where the LGD depends on characteristics such as time in default.

For exposures to non-defaulted customers (i.e. in Stage 1 and Stage 2), collective allowances are calculated according to a rule-based approach irrespective of the significance of the customer. The calculation of collective allowances requires grouping the related exposures into homogenous clusters on the basis of shared risk characteristics. The grouping criteria may differ based on the customer segment (retail, corporate) and include product type, collateral type, repayment type, loan to value band and credit rating band.

The calculation of credit loss allowances is done on a monthly basis on a single exposure level and in the domestic currency. To compute the collective credit loss allowance, the Bank applies an expected credit loss (ECL) model based on a three-stage approach that leads to either a 12-month ECL or to a lifetime ECL. ECL is the discounted product of exposure at default (EAD) that also includes a credit conversion factor in the case of off-balance sheet exposures, probability of default (PD) and loss given default (LGD), defined as follows:

- PD represents the likelihood of a borrower defaulting on its financial obligation (per definition of default below), either over next 12 months (1Y PD) for Stage 1 exposures or over the remaining lifetime (LT PD) for Stage 2 and 3 and POCI exposures.
- EAD is based on the amounts the Bank expects to be owed at the time of default, over next 12 months (1Y EAD) for Stage 1 exposures, or over the remaining lifetime (LT EAD) for Stage 2 and 3 and POCI exposures. The estimation includes current balance, expected repayments and expected drawings up to the current contractual limit by the time of default.
- LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit exposure at the time of default (EAD).

31. Measurement of expected credit loss (continued)

Lifetime parameters

The LT PD is developed through observation of historical defaults from initial recognition through the lifetime of the loans. It is assumed to be same across all assets in the same portfolio and rating band.

The 1Y and LT EADs are determined based on the expected payment profiles, which vary by product type. The LT EAD calculation utilizes repayment schedule or repayment type (annuity, linear, bullet). In case of undrawn commitments, credit conversion factor is estimated for reflecting the expected credit exposure in the EAD.

LGD is estimated as a life-time curve for any point in time, based on the historical loss observations.

The risk parameters used in the ECL calculation take into account available information at the reporting date about past events, current conditions and forecasts on future economic trends. Generally, the risk parameters applied in the calculation of collective allowances differ from the risk parameters compliant to capital requirement regulations, calculated on a through-the-cycle basis if the characteristics of the respective portfolio in combination with IFRS standards necessitate this.

32. Development of credit loss allowances

The following tables give an overview over the development of credit loss allowances per balance sheet line item.

In column 'Additions' increases of CLA due to the initial recognition of financial instruments during the current reporting period are disclosed. Releases of CLA following the derecognition of the related financial instruments are reported in column 'Derecognitions'.

In column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered re-assignments of the related financial instruments from Stage 1 (at 1 January 2022 or initial recognition date) to Stages 2 or 3 at 31 December 2022 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favourable and presented in line 'Stage 1'.

The P&L-neutral effect from cross-stage transferring of the related CLA amounts recognised prior to stage re-assignments are presented above in column 'Changes in credit risk'.

Any other changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column 'Changes in credit risk'.

Financial instruments held at amortised cost:

Movement in credit loss allowances – debt securities

							GROUP
in HRK million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2022						Dec 2022
Stage 1	(5)	(2)	-	-	2	-	(5)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(5)**	**(2)**	**-**	**-**	**2**	**-**	**(5)**

32. Development of credit loss allowances (continued)

Movement in credit loss allowances – debt securities (continued)

GROUP							
in HRK million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2021						Dec 2021
Stage 1	(2)	(2)	2	-	(3)	-	(5)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(2)**	**(2)**	**2**	**-**	**(3)**	**-**	**(5)**

BANK							
in HRK million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2022						Dec 2022
Stage 1	(2)	(2)	-	-	2	-	(2)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(2)**	**(2)**	**-**	**-**	**2**	**-**	**(2)**

BANK							
in HRK million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2021						Dec 2021
Stage 1	(1)	-	-	-	(1)	-	(2)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(1)**	**-**	**-**	**-**	**(1)**	**-**	**(2)**

The year-end total GCAs of AC debt securities that were initially recognized (purchased) during the year 2022 and not sold by 31 December 2022 amounts to HRK 4,453 million for the Group and HRK 4,416 million for the Bank (2021: HRK 2,728 million for the Group and HRK 2,464 million for the Bank). Increase of carrying amount of AC debt securities is mostly result of purchased bonds issued by the Republic of Croatia in amount of HRK 3,303 million.
The GCA of AC debt securities that were held at 1 January 2022 and derecognized (matured) during the year 2022 amounts to HRK 151 million for the Group and for the Bank (2021: HRK 183 million for the Group and nil for the Bank), of which changes in GCA that contributed to changes in credit loss allowances are result of sales made during the reporting period in the amount of HRK 151 million for the Group and for the Bank (2021: nil for the Group and for the Bank).

Movement in credit loss allowances – loans and advances to banks

GROUP							
in HRK million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2022						Dec 2022
Stage 1	(4)	(13)	13	-	1	-	(3)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(4)**	**(13)**	**13**	**-**	**1**	**-**	**(3)**

32. Development of credit loss allowances (continued)

Movement in credit loss allowances – loans and advances to banks (continued)

							GROUP
in HRK million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2021						Dec 2021
Stage 1	(10)	(1)	8	-	(1)	-	(4)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(10)**	**(1)**	**8**	**-**	**(1)**	**-**	**(4)**

							BANK
in HRK million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2022						Dec 2022
Stage 1	(3)	(12)	12	-	1	-	(2)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(3)**	**(12)**	**12**	**-**	**1**	**-**	**(2)**

							BANK
in HRK million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2021						Dec 2021
Stage 1	(10)	(1)	8	-	-	-	(3)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(10)**	**(1)**	**8**	**-**	**-**	**-**	**(3)**

The year-end total GCA of AC loans and advances to banks that were initially recognized during the year 2022 and not fully de-recognized by 31 December 2022 amounts to HRK 2,802 million for the Group and HRK 2,748 million for the Bank (2021: HRK 1,111 million for the Group and for the Bank).
The GCA of AC loans and advances to banks that were held at 1 January 2022 and fully derecognized (matured) during the year 2022 amounts to HRK 4,508 million and for the Group and HRK 4,454 million for the Bank (2021: HRK 764 million for the Group and for the Bank).

32. Development of credit loss allowances (continued)

Movement in credit loss allowances – loans and advances to customers

GROUP

in HRK million	As of	Additions	Derecogni-tions	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of
	Jan 2022								Dec 2022
Stage 1	**(241)**	**(92)**	**40**	**162**	**(49)**	**-**	**-**	**(1)**	**(181)**
General governments	(12)	(6)	1	-	8	-	-	(2)	(11)
Other financial corporations	(1)	(8)	9	-	-	-	-	-	-
Non-financial corporations	(128)	(53)	20	122	(55)	-	-	1	(93)
Households	(100)	(25)	10	40	(2)	-	-	-	(77)
Stage 2	**(751)**	**(172)**	**107**	**(239)**	**358**	**-**	**-**	**(2)**	**(699)**
General governments	(15)	(1)	7	(1)	(1)	-	-	(1)	(12)
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(555)	(120)	84	(135)	267	-	-	-	(459)
Households	(181)	(51)	16	(103)	92	-	-	(1)	(228)
Stage 3	**(1,839)**	**-**	**263**	**(5)**	**(139)**	**2**	**423**	**(4)**	**(1,299)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	(9)	-	2	-	-	-	7	-	-
Non-financial corporations	(782)	-	159	(1)	(15)	1	122	(1)	(517)
Households	(1,048)	-	102	(4)	(124)	1	294	(3)	(782)
POCI	**(110)**	**-**	**2**	**-**	**3**	**-**	**5**	**-**	**(100)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(108)	-	2	-	2	-	5	-	(99)
Households	(2)	-	-	-	1	-	-	-	(1)
Total	**(2,941)**	**(264)**	**412**	**(82)**	**173**	**2**	**428**	**(7)**	**(2,279)**

GROUP

in HRK million	As of	Additions	Derecogni-tions	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of
	Jan 2021								Dec 2021
Stage 1	**(280)**	**(91)**	**33**	**45**	**51**	**-**	**-**	**1**	**(241)**
General governments	(14)	(2)	1	1	2	-	-	-	(12)
Other financial corporations	(5)	(1)	1	-	4	-	-	-	(1)
Non-financial corporations	(140)	(61)	22	23	28	-	-	-	(128)
Households	(121)	(27)	9	21	17	-	-	1	(100)
Stage 2	**(552)**	**(136)**	**67**	**(190)**	**59**	**-**	**-**	**1**	**(751)**
General governments	(3)	(3)	3	(7)	(5)	-	-	-	(15)
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(405)	(117)	49	(80)	(3)	-	-	1	(555)
Households	(144)	(16)	15	(103)	67	-	-	-	(181)
Stage 3	**(2,244)**	**(55)**	**239**	**(8)**	**(268)**	**11**	**484**	**2**	**(1,839)**
General governments	(1)	-	-	-	1	-	-	-	-
Other financial corporations	-	-	-	-	(9)	-	-	-	(9)
Non-financial corporations	(1,016)	(33)	143	-	(100)	10	212	2	(782)
Households	(1,227)	(22)	96	(8)	(160)	1	272	-	(1,048)
POCI	**(71)**	**-**	**11**	**-**	**(55)**	**-**	**5**	**-**	**(110)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(70)	-	11	-	(54)	-	5	-	(108)
Households	(1)	-	-	-	(1)	-	-	-	(2)
Total	**(3,147)**	**(282)**	**350**	**(153)**	**(213)**	**11**	**489**	**4**	**(2,941)**

32. Development of credit loss allowances (continued)

Movement in credit loss allowances – loans and advances to customers (continued)

									BANK
in HRK million	As of	Additions	Derecogni-tions	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of
	Jan 2022								Dec 2022
Stage 1	**(188)**	**(83)**	**34**	**156**	**(50)**	**-**	**-**	**(1)**	**(132)**
General governments	(9)	(5)	1	-	7	-	-	(2)	(8)
Other financial corporations	(1)	(8)	9	-	-	-	-	-	-
Non-financial corporations	(121)	(49)	18	122	(56)	-	-	1	(85)
Households	(57)	(21)	6	34	(1)	-	-	-	(39)
Stage 2	**(683)**	**(171)**	**102**	**(219)**	**341**	**-**	**-**	**(1)**	**(631)**
General governments	(15)	(1)	7	(1)	(1)	-	-	(1)	(12)
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(512)	(119)	83	(130)	256	-	-	-	(422)
Households	(156)	(51)	12	(88)	86	-	-	-	(197)
Stage 3	**(1,616)**	**-**	**206**	**(2)**	**(106)**	**1**	**389**	**(3)**	**(1,131)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(717)	-	143	-	-	-	118	(1)	(457)
Households	(899)	-	63	(2)	(106)	1	271	(2)	(674)
POCI	**(110)**	**-**	**2**	**-**	**3**	**-**	**5**	**-**	**(100)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(108)	-	2	-	2	-	5	-	(99)
Households	(2)	-	-	-	1	-	-	-	(1)
Total	**(2,597)**	**(254)**	**344**	**(65)**	**188**	**1**	**394**	**(5)**	**(1,994)**

									BANK
in HRK million	As of	Additions	Derecogni-tions	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of
	Jan 2021								Dec 2021
Stage 1	**(223)**	**(85)**	**29**	**38**	**53**	**-**	**-**	**-**	**(188)**
General governments	(11)	(2)	1	-	3	-	-	-	(9)
Other financial corporations	(4)	(1)	1	-	3	-	-	-	(1)
Non-financial corporations	(133)	(57)	20	23	26	-	-	-	(121)
Households	(75)	(25)	7	15	21	-	-	-	(57)
Stage 2	**(485)**	**(135)**	**59**	**(178)**	**55**	**-**	**-**	**1**	**(683)**
General governments	(2)	(3)	3	(7)	(6)	-	-	-	(15)
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(365)	(116)	44	(78)	2	-	-	1	(512)
Households	(118)	(16)	12	(93)	59	-	-	-	(156)
Stage 3	**(2,044)**	**(50)**	**206**	**(4)**	**(188)**	**1**	**461**	**2**	**(1,616)**
General governments	(1)	-	-	-	1	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(964)	(28)	137	-	(68)	-	204	2	(717)
Households	(1,079)	(22)	69	(4)	(121)	1	257	-	(899)
POCI	**(71)**	**-**	**11**	**-**	**(55)**	**-**	**5**	**-**	**(110)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(70)	-	11	-	(54)	-	5	-	(108)
Households	(1)	-	-	-	(1)	-	-	-	(2)
Total	**(2,823)**	**(270)**	**305**	**(144)**	**(135)**	**1**	**466**	**3**	**(2,597)**

32. Development of credit loss allowances (continued)

Movement in credit loss allowances – loans and advances to customers (continued)

The column 'Changes in credit risk' also captures the passage-of-time adverse effect ('unwinding correction') over the lifetime expected cash shortfalls of AC loans and advances to customers that were assigned to Stage 3 for any period throughout the year, as well as of any POCI loans and advances to customers. This adverse effect amounted to HRK 16 million for the Group and HRK 8 million for the Bank (2021: HRK 21 million for the Group and HRK 13 million for the Bank) cumulatively for the year 2022, which also reflects the unrecognised interest income out of the related AC loans and advances to customers throughout the year.
The column 'Insignificant modifications (net)' reflects the effect on CLA arising from contractual modifications of loans and advances to customers at AC which do not trigger their full derecognition. The use of CLA triggered by full or partial write-offs of AC loans and advances to customers is reported in column 'Write-offs'.

One significant driver of the CLA movements for the year has been the transfer of the related instruments across different impairment stages. The year-end GCA of AC loans and advances to customers that were assigned at 31 December 2022 to a different stage compared to 1 January 2022 (or to the initial recognition date, if originated during the year) are summarized below:

GCA transfers between impairment stages for loans and advances at amortised cost to customers

								GROUP
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		POCI	
in HRK million	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3	To Defaulted from Non-Defaulted	To Non-Defaulted from Defaulted
2022								
General governments	63	8	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-
Non-financial corporations	4,324	1,827	94	66	81	-	-	33
Households	3,194	854	141	80	82	15	-	4
Total	**7,581**	**2,689**	**235**	**146**	**163**	**15**	**-**	**37**

								GROUP
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		POCI	
in HRK million	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3	To Defaulted from Non-Defaulted	To Non-Defaulted from Defaulted
2021								
General governments	505	50	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-
Non-financial corporations	1,478	693	142	10	43	-	-	1
Households	1,597	401	155	102	176	34	-	-
Total	**3,580**	**1,144**	**297**	**112**	**219**	**34**	**-**	**1**

32. Development of credit loss allowances (continued)

Movement in credit loss allowances – loans and advances to customers (continued)

								BANK
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		POCI	
in HRK million	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3	To Defaulted from Non-Defaulted	To Non-Defaulted from Defaulted
2022								
General governments	63	8	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-
Non-financial corporations	4,161	1,815	93	63	78	-	-	33
Households	2,789	723	122	76	60	6	-	4
Total	**7,013**	**2,546**	**215**	**139**	**138**	**6**	**-**	**37**

								BANK
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		POCI	
in HRK million	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3	To Defaulted from Non-Defaulted	To Non-Defaulted from Defaulted
2021								
General governments	505	36	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-
Non-financial corporations	1,389	671	104	8	41	-	-	1
Households	1,443	312	126	97	140	21	-	-
Total	**3,337**	**1,019**	**230**	**105**	**181**	**21**	**-**	**1**

The year-end total GCA of the AC loans and advances to customers that were initially recognized during the year 2022 and not fully de-recognized by 31 December 2022 amounts to HRK 20,405 million for the Group and HRK 19,436 million for the Bank (2021: to HRK 13,729 million for the Group and HRK 13,016 million for the Bank), of which changes in GCA that contributed to changes in credit loss allowances are result of significant contractual modification in the amount of HRK 2,124 million for the Group and for the Bank (2021: HRK 2,360 million for the Group and for the Bank) and purchases made during the reporting period in the amount of HRK 263 million for the Group and for the Bank (2021: HRK 317 million for the Group and for the Bank).

The GCA of the AC loans and advances to customers that were held at 1 January 2022 and fully derecognized (mainly due to matured) during the year 2022 amounts to HRK 9,545 million for the Group and HRK 9,214 million for the Bank (2021: HRK 7,094 million for the Group and HRK 6,711 million for the Bank), of which changes in GCA that contributed to changes in credit loss allowances are result of significant contractual modification in the amount of HRK 1,474 million for the Group and for the Bank (2021: HRK 1,742 million for the Group and for the Bank) and sales made during the reporting period in the amount of HRK 19 million for the Group and for the Bank (2021: HRK 1 million for the Group and for the Bank).

The undiscounted amount of the lifetime expected credit losses considered in the initial measurement of the AC loans and advances to customers initially recognized and identified as POCI during the year 2022 amounted to HRK 11 million for the Group and for the Bank (2021: HRK 55 million for the Group and for the Bank).

32. Development of credit loss allowances (continued)

Movement in credit loss allowances – trade and other receivables

									GROUP
in HRK million	As of	Additions	Derecogni-tions	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of
	Jan 2022								Dec 2022
Stage 1	(25)	(14)	16	-	2	-	-	-	(21)
Stage 2	(6)	(2)	5	(1)	-	-	-	-	(4)
Stage 3	(158)	(2)	54	(1)	(22)	-	38	(8)	(99)
POCI	-	-	-	-	(1)	-	-	-	(1)
Total	**(189)**	**(18)**	**75**	**(2)**	**(21)**	**-**	**38**	**(8)**	**(125)**

									GROUP
in HRK million	As of	Additions	Derecogni-tions	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of
	Jan 2021								Dec 2021
Stage 1	(24)	(12)	10	1	-	-	-	-	(25)
Stage 2	(5)	-	3	(2)	(2)	-	-	-	(6)
Stage 3	(195)	(4)	31	(5)	(34)	-	41	8	(158)
POCI	-	-	-	-	-	-	-	-	-
Total	**(224)**	**(16)**	**44**	**(6)**	**(36)**	**-**	**41**	**8**	**(189)**

									BANK
in HRK million	As of	Additions	Derecogni-tions	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of
	Jan 2022								Dec 2022
Stage 1	(6)	(14)	12	-	3	-	-	-	(5)
Stage 2	(4)	(2)	4	-	-	-	-	-	(2)
Stage 3	(71)	(2)	6	-	(11)	-	34	-	(44)
POCI	-	-	-	-	(1)	-	-	-	(1)
Total	**(81)**	**(18)**	**22**	**-**	**(9)**	**-**	**34**	**-**	**(52)**

									BANK
in HRK million	As of	Additions	Derecogni-tions	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of
	Jan 2021								Dec 2021
Stage 1	(8)	(9)	7	-	4	-	-	-	(6)
Stage 2	(1)	(1)	-	(1)	(1)	-	-	-	(4)
Stage 3	(79)	(2)	4	-	(14)	-	20	-	(71)
POCI	-	-	-	-	-	-	-	-	-
Total	**(88)**	**(12)**	**11**	**(1)**	**(11)**	**-**	**20**	**-**	**(81)**

The year-end total GCA of the trade and other receivables that were initially recognized during the year 2022 and not fully de-recognized by 31 December 2022 amounts to HRK 702 million for the Group and HRK 695 million for the Bank (2021: HRK 713 million for the Group and HRK 585 million for the Bank), of which changes in GCA that contributed to changes in credit loss allowances are result of purchases made during the reporting period in the amount of HRK 684 million for the Group and for the Bank (2021: HRK 564 million for the Group and for the Bank).
The GCA of the trade and other receivables that were held on 1 January 2022 and fully de-recognized (matured) during the year 2022 amounts to HRK 610 million for the Group and HRK 497 million for the Bank (2021: HRK 450 million for the Group and HRK 417 million for the Bank), of which changes in GCA that contributed to changes in credit loss allowances are result of write-offs made during the reporting period in the amount of HRK 14 million for the Group and HRK 13 million for the Bank (2021: HRK 13 million for the Group and for the Bank).

32. Development of credit loss allowances (continued)

Financial assets at fair value through other comprehensive income – debt instruments:

Movement in credit loss allowances – debt instrument financial assets

							GROUP
in HRK million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2022						Dec 2022
Stage 1	(28)	(1)	2	-	7	(1)	(21)
Stage 2	(53)	-	-	(11)	17	-	(47)
Stage 3	-	-	-	-	-	-	-
Total	**(81)**	**(1)**	**2**	**(11)**	**24**	**(1)**	**(68)**

							GROUP
in HRK million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2021						Dec 2021
Stage 1	(40)	(1)	1	2	12	(2)	(28)
Stage 2	(31)	-	2	(17)	(7)	-	(53)
Stage 3	-	-	-	-	-	-	-
Total	**(71)**	**(1)**	**3**	**(15)**	**5**	**(2)**	**(81)**

							BANK
in HRK million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2022						Dec 2022
Stage 1	(25)	(1)	2	-	7	(1)	(18)
Stage 2	(53)	-	-	(11)	17	-	(47)
Stage 3	-	-	-	-	-	-	-
Total	**(78)**	**(1)**	**2**	**(11)**	**24**	**(1)**	**(65)**

							BANK
in HRK million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2021						Dec 2021
Stage 1	(37)	(1)	1	2	12	(2)	(25)
Stage 2	(31)	-	2	(17)	(7)	-	(53)
Stage 3	-	-	-	-	-	-	-
Total	**(68)**	**(1)**	**3**	**(15)**	**5**	**(2)**	**(78)**

One significant driver of the above presented CLA movements for the year has been the transfer of the related instruments across different stages. The year-end GCAs of FVOCI debt securities that were assigned at 31 December 2022 to a different stage compared to 1 January 2022 (or to the initial recognition date, if purchased during the year) are summarized in the table below:

Transfers between Stage 1 and Stage 2 – debt instrument financial assets

	GROUP		BANK	
in HRK million	2021	2022	2021	2022
To Stage 2 from Stage 1	399	661	399	661
To Stage 1 from Stage 2	432	0	432	0

32. Development of credit loss allowances (continued)

Movement in credit loss allowances – debt instrument financial assets (continued)

The year-end GCA of the debt securities at FVOCI that were initialy recognized during year 2022 and not fully derecognized by 31 December 2022 amounts to 249 million for the Group and for the Bank (2021: HRK 2,082 million for the Group and for the Bank).
The GCA of the debt securities at FVOCI that were held at 1 January 2022 and fully derecognized during the year 2022 amounts to HRK 2,047 million for the Group and for the Bank (2021: HRK 1,370 million for the Group and HRK 1,332 million for the Bank), of which changes in GCA that contributed to changes in credit loss allowances are result of sales made during the reporting period in the amount of HRK 1,084 million for the Group and for the Bank (2021: nil for the Group and for the Bank).

Finance lease receivables:

Movement in credit loss allowances – finance lease receivables

									GROUP
in HRK million	As of	Additions	Charge-offs	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of
	Jan 2022								Dec 2022
Stage 1	(9)	-	2	5	(4)	-	-	(1)	(7)
Stage 2	(24)	-	9	(9)	5	-	-	-	(19)
Stage 3	(25)	-	9	-	-	-	-	(3)	(19)
POCI	-	-	-	-	-	-	-	-	-
Total	**(58)**	**-**	**20**	**(4)**	**1**	**-**	**-**	**(4)**	**(45)**

									GROUP
in HRK million	As of	Additions	Charge-offs	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of
	Jan 2021								Dec 2021
Stage 1	(5)	(6)	1	3	(2)	-	-	-	(9)
Stage 2	(18)	-	1	(6)	(1)	-	-	-	(24)
Stage 3	(29)	-	6	-	(2)	-	-	-	(25)
POCI	-	-	-	-	-	-	-	-	-
Total	**(52)**	**(6)**	**8**	**(3)**	**(5)**	**-**	**-**	**-**	**(58)**

The use of CLA triggered by full or partial write-offs of finance lease receivables is reported in column 'Write-offs'.

One significant driver of the CLA movements for the year has been the transfer of the related instruments across impairment stages. The year-end GCA of finance lease receivables that were assigned at 31 December 2022 to a different stage compared to 1 January 2022 (or to the initial recognition date, if originated during the year) are summarized below:

Transfers between stages – finance lease receivables

		GROUP
in HRK million	2021	2022
Transfers between Stage 1 and Stage 2	**249**	**481**
To Stage 2 from Stage 1	142	302
To Stage 1 from Stage 2	107	179
Transfers between Stage 2 and Stage 3	**25**	**4**
To Stage 3 from Stage 2	19	3
To Stage 2 from Stage 3	6	1
Transfers between Stage 1 and Stage 3	**6**	**3**
To Stage 3 from Stage 1	5	3
To Stage 1 from Stage 3	1	0

32. Development of credit loss allowances (continued)

Movement in credit loss allowances – finance lease receivables (continued)

The year-end total GCA of the finance lease receivables that were initially recognised during the reporting period and not fully de-recognised by 31 December 2022 amounts to HRK 129 million for the Group and nil for the Bank (2021: HRK 910 million for the Group and nil for the Bank).
The GCA of the finance lease receivables that were held at 1 January 2022 and fully derecognised during the year 2022 amounts to HRK 1,440 million for the Group and HRK nil for the Bank (2021: HRK 994 million for the Group and nil for the Bank).

Loan commitments and financial guarantees:

Movement in credit loss allowances – loan commitments and financial guarantees

							GROUP
in HRK million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2022						Dec 2022
Stage 1	94	95	(37)	(17)	(94)	1	42
Stage 2	55	-	(31)	92	73	-	189
Defaulted	19	-	(16)	2	19	3	27
Total	**168**	**95**	**(84)**	**77**	**(2)**	**4**	**258**

							GROUP
in HRK million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2021						Dec 2021
Stage 1	69	82	(17)	(9)	(30)	(1)	94
Stage 2	39	-	(7)	25	(2)	-	55
Defaulted	42	-	(15)	1	(6)	(3)	19
Total	**150**	**82**	**(39)**	**17**	**(38)**	**(4)**	**168**

							BANK
in HRK million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2022						Dec 2022
Stage 1	88	90	(35)	(17)	(90)	-	36
Stage 2	54	-	(31)	92	71	-	186
Defaulted	16	-	(13)	-	22	1	26
Total	**158**	**90**	**(79)**	**75**	**3**	**1**	**248**

							BANK
in HRK million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2021						Dec 2021
Stage 1	60	79	(16)	(8)	(27)	-	88
Stage 2	36	-	(6)	24	-	-	54
Defaulted	35	-	(14)	-	(5)	-	16
Total	**131**	**79**	**(36)**	**16**	**(32)**	**-**	**158**

One significant driver of the CLA movements for the year has been the transfer of the related instruments across different stages. The year-end notional amounts of loan commitments and financial guarantees that were assigned at 31 December 2022 to a different stage compared to 1 January 2022 (or to the initial recognition date, if originated during the year) are summarized below:

32. Development of credit loss allowances (continued)

Movement in credit loss allowances – loan commitments and financial guarantees (continued)

Transfers between stages – loan commitments and financial guarantees

	GROUP		BANK	
in HRK million	2021	2022	2021	2022
Transfers between Stage 1 and Stage 2	**621**	**2,197**	**456**	**1,996**
To Stage 2 from Stage 1	337	1,937	228	1,797
To Stage 1 from Stage 2	284	260	228	199
Transfers between Stage 2 and Stage 3	**25**	**16**	**25**	**14**
To Stage 3 from Stage 2	3	15	2	14
To Stage 2 from Stage 3	66	1	64	0
Transfers between Stage 1 and Stage 3	**211**	**15**	**201**	**11**
To Stage 3 from Stage 1	3	12	0	11
To Stage 1 from Stage 3	208	3	201	0

The year-end nominal amounts of unused off-balance commitments and financial guarantees that were initially recognised during the year 2022 and not fully derecognised by 31 December 2022 amounts to HRK 7,786 million for the Group and HRK 7,316 million for the Bank (2021: HRK 5,380 million for the Group and HRK 5,005 million for the Bank), of which changes in GCA that contributed to changes in credit loss allowancse are result of significant contractual modification in the amount of HRK 144 million for the Group and for the Bank (2021: HRK 155 million for the Group and for the Bank) and purchases made during the reporting period in the amount of HRK 5 million for the Group and for the Bank (2021: HRK 35 million for the Group and for the Bank).

The nominal amounts of unused off-balance commitments or financial guarantees that were held at 1 January 2022 and fully de-recognised during the year 2022 amounts to HRK 3,206 million for the Group and HRK 2,793 million for the Bank (2021: HRK 2,429 million for the Group and HRK 2,110 million for the Bank), of which changes in GCA that contributed to changes in credit loss allowances are result of significant contractual modification in the amount of HRK 116 million for the Group and for the Bank (2021: HRK 103 million for the Group and for the Bank).

33. Scenarios used in forward looking information and COVID-19 Effect

Overview on scenarios used in forward-looking information

Incorporation of forward-looking information

Parameters are determined to reflect the risk as a 'point-in-time' measure and with consideration of forward-looking information ('FLI'). This results in using a baseline forecast and a several alternative scenarios for selected macroeconomic variables. The alternative scenarios are derived, together with their probabilities of occurrence, as a deviation from baseline forecasts. The baseline forecasts are, with a few exceptions, internally determined by Erste Group's research department. Given multiple scenarios, the 'neutral' PDs (and also LGDs, with a few exceptions) are adjusted through macro models which link relevant macroeconomic variables with risk drivers. Same macro-shift models as for external and internal stress test are employed. Forward looking information is incorporated for first three years of ECL measurement. Measurement of the remaining lifetime returns back to through the cycle observations in the year four immediately.
Thus, the unbiased, probability weighted ECL considering FLI is derived with the weights representing the occurrence probabilities of each macroeconomic scenario. Typical macroeconomic variables may include real gross domestic product, unemployment rate, inflation rate, production index as well as market interest rates. The selection of variables also depends on the availability of reliable forecasts for the given local market. Nevertheless, main indication of the estimated economic development can be predicted through GDP development. In addition, economic effects of the war in Ukraine led to increases of the inflation and/or the interest rates. Macro-shift models were adjusted to reflect expected effects of those into credit risk parameters. In the table below we are disclosing expected development of inflation in Croatia. Disclosures are based on the relevancy in the macro-shift model.
EBC group reviewed the FLI in the fourth quarter of 2022 according to the disclosed forecasts for baseline, downside and upside scenarios. EBC group decided to keep 40% probability of occurrence assigned to baseline forecast due to the unstable development of the geo-political situation – war in Ukraine.

33. Scenarios used in forward looking information and COVID-19 Effect (continued)

In December 2021, the specific situation of the Covid-19 pandemic was addressed in FLI via the lagging of the macroeconomic variables in credit risk parameters, i.e. variables of 2020 and 2021 were included as additional predictors for future values of credit risk parameters. Considering the improvement of the situation (it is expected that new variants, including omicron, are more contagious, but with lower hospitalisation rate), the Bank decided to update FLI based on the forecasts for years 2023-2025, i.e., no lagging is applied; however macro-variables' historical development was adjusted for the Covid-19 period (2020-2021) in order to reflect compensatory effect of the state support measures.

Baseline, upside and downside scenarios of GDP development

GDP growth in %	Scenario	Probability weight	2022	2023	2024	2025
2022						
Erste&Steiermärkische Bank d.d.	Upside	1%	5.5	3.2	4.7	6.1
	Baseline	40%	5.5	1.0	2.5	2.5
	Downside	59%	5.5	(3.9)	(1.0)	0.4
			2021	**2022**	**2023**	**2024**
2021						
Erste&Steiermärkische Bank d.d.	Upside	1%	(8.0)	12.4	10.8	9.9
	Baseline	40%	(8.0)	8.7	4.8	4.5
	Downside	59%	(8.0)	(1.0)	(1.2)	1.0

Baseline, upside and downside scenarios of the inflation development

Inflation in %	Scenario	Probability weight	2022	2023	2024	2025
2022						
Erste&Steiermärkische Bank d.d.	Upside	1%	10.5	5.5	2.2	1.7
	Baseline	40%	10.5	6.5	3.0	3.0
	Downside	59%	10.5	8.8	2.7	3.4
			2021	**2022**	**2023**	**2024**
2021						
Erste&Steiermärkische Bank d.d.	Upside	1%	2.6	3.1	4.0	3.3
	Baseline	40%	2.6	2.5	2.6	1.5
	Downside	59%	2.6	1.1	1.1	0.6

In order to reflect on the higher volatility of macro-economic variables estimates and significantly higher downward risk of macro-economic recovery due to current developments of the war in Ukraine we have introduced a conservative downside scenario with relatively high probability of occurrence as shown in the GDP overview table above.

EBC group recognizes additional challenges caused by the ESG (environmental, social and governance) risks. We are in the process of analyses how to incorporate these risks into ECL measurement. In the Risk Materiality Assessment, climate and environment-related risks are overall assessed as medium and therefore classified as material with stable outlook. We have not included additional overlays for ESG risks for year-end 2021. However, due to our considerate approach to the current situation we believe that ECL represents the best estimate of the expected credit losses as of 31 December 2022.

Collective assessment

As of December 2022, in addition to standard SICR assessment, EBC group applied stage overlays rules, i.e. transfer into Stage 2 based on pre-defined portfolio characteristics, due to the uncertainty caused by the war in Ukraine and the energy crisis. This approach was aligned with Erste Group and business lines and approved by the respective governance bodies. Until fourth quarter of 2022, EBC group had in place overlays addressing Covid-19 as well. Improved pandemic situation over 2022 enabled discontinuation of Covid-19 related overlays.

33. Scenarios used in forward looking information and COVID-19 Effect (continued)

Covid-19 Effect

The Covid-19 pandemic caused high uncertainty in the global economy and on the global markets. Social distancing rules and lockdown restrictions imposed by governments led to economic slow-down and a significant drop of revenues across industries. Unprecedented state aid packages (e.g. state guarantees, bridge financing, the state temporarily paying workers' salaries to avoid redundancies, and moratoria programs) were introduced in Croatia to support citizens and companies. While such measures mitigate the negative economic effects, they complicate a timely reflection of a potential deterioration of the loan portfolios.

The European Banking Authority (EBA) has issued Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis in 2020., and accordingly to that, the Croatian Government applied non-legislative moratorium. During 2020. certain measures were introduced to mitigate the effects of the special circumstances caused by the coronavirus epidemic like introduction of the Stand-still arrangement, loans for liquidity and working capital with a repayment period of up to three years; moratoria on credit liabilities, and which continued to be implemented in 2021. As of 31 December 2022, there were no active measures subject to EBA-compliant moratoria on the Bank and the Group level.

Since March 2020, risk management and business divisions run a joint initiative aiming to reflect on changed economic environment, provid-ing a harmonised guidance and focused industry approach within Erste Group. E.g. in the course of the Covid-19 crisis, industries and sub-industries were categorised into critical, high, medium or low risk according to the expected impacts from Covid-19 based on a combination of research material, feedback collected from client meetings and single name analyses.

The categorizations were regularly reviewed on a 12-month rolling forecast basis to take current developments into account. The last review was done in October 2022 and led to discontinuation of this industries' classification due to the overall stabilization of the Covid-19 situation and its effects. Additionally, new considerations related to economic downturn induced by the war in Ukraine would be overlapping with the potential economic effects of the Covid-19. It is not feasible to distinguish them under current situation.

War in Ukraine

The Ukraine-Russia war, intensified challenges for both risk and business divisions: a rally in energy prices on the one hand and disruptions in supply chains on the other hand. The first ones had implications on various industries, mainly those with energy intensive production processes, but also impacting segments with high fuel cost shares. Issues with supply chains are managed by affected clients with diverse measures aiming to safeguard the business activity and liquidity (amongst others: active working capital management, targeted stocking-up, output adaptation, renegotiations with off takers etc.), in some cases also by ensuring backup/liquidity financing. Developments as mentioned above are reflected in the regular updates of the industry strategies.

In June 2022, EBC group implemented rules for stage overlays due to the war in Ukraine (UA war overlays) as a combination of industries with correlation to economic downturn (cyclical industries) and one-year IFRS PD. These rules were defined on top of existing criteria mentioned in the section 'Qualitative criteria' (Stage 2 identification based on the early warning signal and negative information about geopolitical risk in March 2022).

In addition to cyclical industries, from September 2022 EBC Group has introduced additional Energy stage overlay due to the current distortions in the energy market with implications on gas/energy availability and price. Two-folds effects were identified. Effects of gas rationing/shortage on clients either due to energy intensive production processes or relying on gas as a primary input in their business processes. Vulnerability is driven by gas dependency, (limited) substitution possibilities and implications of a substitution on financials, hedging and price mechanisms. Within the industry Natural Resources and Commodities, Metals and Chemical subindustries were identified as being most affected. All companies belonging to the Energy sector as the whole industry can potentially be affected by the massive shortages and distortions in the current energy market: price volatility, margin calls, price caps, adverse weather environment for hydro power, fixed off-take contracts (putting off-takers at risk when stopped and / or limiting producers of renewable energy profiting from the higher prices), exceptional taxes, etc. All customers belonging to these industries / sub-industries were migrated to Stage 2. Exemptions to these migrations are allowed based on the individual review and documentation.

33. Scenarios used in forward looking information and COVID-19 Effect (continued)

Furthermore, since the previous mentioned overlys are applicable mainly for Corporate portfolio, to cover future uncertainties related to the higher inflation in Privates portfolio, the additional overlay for Privates portfolio was defined in November 2022. Therefore, Privetes clients with DSTI (Debt service to income) indicator greater than 50% and rating valid on relevant report date B2 or worse are classified as stage 2.

The table below shows volumes for the cyclical industries category and energy dependent (sub)industries.

Credit risk exposure and credit loss allowances by industry and IFRS9 treatment – cyclical industries

								BANK
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total	Credit loss allowances
2022								
Natural Resources & Commodities	1,945	989	106	3	3,043	-	3,043	(116)
of which cyclical	-	148	-	-	148	-	148	(7)
Energy	-	5,156	8	1	5,165	-	5,165	(212)
Construction and building materials	3,087	906	185	41	4,219	-	4,219	(252)
of which cyclical	-	894	-	5	899	-	899	(58)
Automotive	619	119	20	-	758	-	758	(27)
of which cyclical	-	113	-	-	113	-	113	(7)
Cyclical Consumer Products	2,051	364	99	5	2,519	-	2,519	(99)
Non-Cyclical Consumer Products	1,695	107	123	15	1,940	-	1,940	(110)
Machinery	750	123	12	12	897	-	897	(16)
of which cyclical	-	123	-	-	123	-	123	(6)
Transportation	4,795	394	47	8	5,244	-	5,244	(79)
of which cyclical	-	367	-	-	367	-	367	(32)
TMT and paper & packaging	1,064	79	7	-	1,150	-	1,150	(19)
of which cyclical	-	40		-	40	-	40	(3)
Healthcare & Services	1,699	142	35	2	1,878	-	1,878	(45)
of which cyclical	-	91		-	91	-	91	(10)
Hotels, Gaming & Leisure Industry	4,100	1,790	123	71	6,084	-	6,084	(252)
of which cyclical	-	1,401		4	1,405	-	1,405	(123)
Real Estate	5,018	415	69	57	5,559	-	5,559	(140)
of which cyclical	-	367	-	21	388	-	388	(34)
Public Sector	26,378	2,487	-	-	28,865	4	28,869	(135)
Financial Institutions	23,527	147	1	-	23,675	231	23,906	(31)
Private Households	15,906	4,936	965	5	21,812	-	21,812	(840)
Other	-	-	-	-	-	-	-	-
Total	**92,634**	**18,154**	**1,800**	**220**	**112,808**	**235**	**113,043**	**(2,373)**
of which cyclical (including Cyclical Consumer Products)	**2,051**	**3,908**	**99**	**35**	**6,093**	**-**	**6,093**	**(379)**
2021								
Agriculture and forestry	1,186	99	87	-	1,372	-	1,372	(85)
Mining	41	9	-	-	50	-	50	(1)
Manufacturing	4,237	353	330	44	4,964	3	4,967	(330)
Energy and water supply	2,055	80	12	-	2,147	7	2,154	(48)
Construction	2,184	223	167	4	2,578	-	2,578	(203)
Trade	3,278	302	190	27	3,797	-	3,797	(218)
Transport and communication	5,292	321	84	8	5,705	-	5,705	(120)
Hotels and restaurants	1,187	3,174	192	59	4,612	2	4,614	(505)
Financial and insurance services	16,926	60	2	-	16,988	115	17,103	(31)
Real estate and housing	2,132	91	47	58	2,328	3	2,331	(86)
Services	929	366	58	6	1,359	-	1,359	(82)
Public administration	19,595	2,178	-	-	21,773	75	21,848	(131)
Education, health and art	1,323	281	10	-	1,614	-	1,614	(40)
Households	16,093	2,597	1,255	5	19,950	-	19,950	(1,032)
Other	179	12	5	-	196	-	196	(12)
Total	**76,637**	**10,146**	**2,439**	**211**	**89,433**	**205**	**89,638**	**(2,924)**

33. Scenarios used in forward looking information and COVID-19 Effect (continued)

Effect on Expected Credit Loss
As described above, an increase of the ECL might result from a re-assessment of the credit risk parameters and a migration to worse stages either via significant increase in credit risk (SICR) or a default.

The discontinuation of Covid-19 related overlays in fourth quarter of 2022 led to the zero additional transfers into Stage 2 (HRK 3,303 million in 2021) and ECL allocation (HRK 243 million in 2021) due to Covid-19.

Exposure in Stage 2 due to the application of the rules for Ukraine war overlays stood at for cyclical industries HRK 3,327 million in 2022 and HRK 5,780 million for energy overlays in 2022, with additional ECL allocated in the amount of HRK 157 million for cyclical industries and HRK 164 million for energy overlays.
We have re-assessed credit risk parameters based on the new macro-scenarios FLI overlay. We will continue monitoring of the macro and macro-prediction development in order to reflect up-to-date information in our credit risk parameters. GDP scenarios and weights are shown in the table Baseline, upside and downside scenarios of GDP development.
Scenario simulation presents sensitivity analyses taking into consideration only changes due to the different values of PDs, if baseline, up-side or downside FLI scenarios had 100% weight. Sensitivities of these scenarios are calculated in comparison to current production - weighted scenarios FLI shifted - PDs (weights and scenarios are disclosed in the "'Incorporation of forward-looking information'" section above). Both staging and resulting ECL were simulated with the scenario PDs.
The incorporation of 100% baseline scenario instead of the currently applied probability weighted scenario, would lead to a decrease of Stage 2 exposure by HRK 11 million (2021: HRK 246 million), resulting in an ECL drop by HRK 24 million (2021: HRK 245 million).
The downside scenario would lead to additional HRK 16 million of exposure migration to Stage 2 in comparison with probability weighted FLI (2021: HRK 309 million), resulting in ECL increase of HRK 16 million (2021: HRK 178 million).
For the ECL change a positive sign (+) equals a release while a negative sign (-) equals an allocation. Values presented as sensitivities are results of internal simulations.

Forward looking information (FLI) and stage overlays due to the Energy crisis

Impact on credit risk exposure

									BANK
	Current status - parameters (FLI shifted)						Simulations - difference to FLI shifts effect		
	Stage 1	Stage 2	Total	Stage 2 affected by			Upside scenario	Baseline scenario	Downside scenario
in HRK million				Covid-19 overlays	Energy overlays	FLI shifts			
2022									
Erste&Steiermärkische Bank d.d.	92,634	18,154	110,788	-	5,780	90	22	11	(16)
2021									
Erste&Steiermärkische Bank d.d.	76,637	10,146	86,783	3,305	-	223	307	246	(309)

Impact on credit loss allowances

									BANK
	Current status - parameters (FLI shifted)						Simulations - difference to FLI shifts effect		
	Stage 1	Stage 2	Total	out of which:			Upside scenario	Baseline scenario	Downside scenario
in HRK million				Effect of Covid-19 overlays	Effect of Energy overlays	Effect of FLI shifts			
2022									
Erste&Steiermärkische Bank d.d.	(205)	(867)	(1,072)	-	163	226	47	24	(16)
2021									
Erste&Steiermärkische Bank d.d.	(317)	(794)	(1,111)	243	-	217	281	245	(178)

33. Scenarios used in forward looking information and COVID-19 Effect (continued)

Impact on credit risk exposure by industry

						BANK
	Current status - parameters (FLI shifted)		Effect of Energy overlays		Point in time parameters (before FLI shift)	
in HRK million	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
2022						
Natural Resources & Commodities	1,945	989	2,669	265	1,955	979
of which cyclical	-	148	-	148	-	148
Energy	-	5,156	5,056	100	-	5,156
Construction and building materials	3,087	906	3,087	906	3,091	903
of which cyclical	-	894	-	894	-	894
Automotive	619	119	619	119	620	118
of which cyclical	-	113	-	113	-	113
Cyclical Consumer Products	2,051	364	2,051	364	2,052	363
Non-Cyclical Consumer Products	1,695	107	1,695	107	1,704	98
Machinery	750	123	750	123	750	123
of which cyclical	-	123	-	123	-	123
Transportation	4,795	394	4,795	394	4,803	386
of which cyclical	-	367	-	367	-	367
TMT and paper & packaging	1,064	79	1,064	79	1,086	57
of which cyclical	-	40	-	40	-	40
Healthcare & Services	1,699	142	1,699	142	1,708	132
of which cyclical	-	91	-	91	-	91
Hotels, Gaming & Leisure Industry	4,100	1,790	4,100	1,790	4,100	1,790
of which cyclical	-	1,401	-	1,401	-	1,401
Real Estate	5,018	415	5,018	415	5,019	414
of which cyclical	-	367	-	367	-	367
Public Sector	26,378	2,487	26,378	2,487	26,378	2,487
Financial Institutions	23,527	147	23,527	147	23,527	147
Private Households	15,906	4,936	15,906	4,936	15,932	4,911
Other	-	-	-	-	-	-
Total	**92,634**	**18,154**	**98,414**	**12,374**	**92,725**	**18,064**
2021						
Agriculture and forestry	1,186	99	1,248	37	1,205	80
Mining	41	9	41	9	42	8
Manufacturing	4,237	353	4,320	270	4,287	304
Energy and water supply	2,055	80	2,056	79	2,056	79
Construction	2,184	223	2,188	218	2,224	183
Trade	3,278	302	3,400	180	3,328	252
Transport and communication	5,292	321	5,440	174	5,324	290
Hotels and restaurants	1,187	3,174	3,481	879	1,188	3,173
Financial and insurance services	16,926	60	16,859	60	16,859	60
Real estate and housing	2,132	91	2,208	15	2,134	89
Services	929	366	1,194	101	938	357
Public administration	19,595	2,178	19,600	2,174	19,595	2,178
Education, health and art	1,323	281	1,557	46	1,329	275
Households	16,093	2,597	16,103	2,587	16,105	2,586
Other	179	12	179	12	178	12
Total	**76,637**	**10,146**	**79,874**	**6,841**	**76,792**	**9,926**

33. Scenarios used in forward looking information and COVID-19 Effect (continued)

Impact on credit loss allowances by industry

						BANK
	Current status - parameters (FLI shifted)		Effect of Energy overlays		Point in time parameters (before FLI shift)	
in HRK million	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
2022						
Natural Resources & Commodities	(15)	(32)	(20)	(16)	(10)	(22)
of which cyclical	-	(7)	-	(7)	-	(4)
Energy	-	(204)	(35)	(16)	-	(167)
Construction and building materials	(15)	(59)	(15)	(59)	(10)	(40)
of which cyclical	-	(58)	-	(58)	-	(39)
Automotive	(3)	(7)	(3)	(7)	(2)	(5)
of which cyclical	-	(7)	-	(7)	-	(5)
Cyclical Consumer Products	(9)	(20)	(9)	(20)	(6)	(13)
Non-Cyclical Consumer Products	(14)	(6)	(14)	(6)	(9)	(3)
Machinery	(3)	(6)	(3)	(6)	(2)	(4)
of which cyclical	-	(6)	-	(6)	-	(4)
Transportation	(14)	(33)	(14)	(34)	(10)	(24)
of which cyclical	-	(32)	-	(32)	-	(23)
TMT and paper & packaging	(9)	(5)	(9)	(5)	(7)	(3)
of which cyclical	-	(3)	-	(3)	-	(2)
Healthcare & Services	(12)	(13)	(12)	(13)	(8)	(9)
of which cyclical	-	(10)	-	(10)	-	(8)
Hotels, Gaming & Leisure Industry	(15)	(148)	(15)	(148)	(11)	(123)
of which cyclical	-	(123)	-	(123)	-	(98)
Real Estate	(21)	(35)	(21)	(35)	(19)	(24)
of which cyclical	-	(34)	-	(34)	-	(23)
Public Sector	(9)	(126)	(9)	(126)	(9)	(103)
Financial Institutions	(30)	-	(30)	-	(23)	-
Private Households	(36)	(173)	(36)	(173)	(30)	(150)
Other	-	-	-	-	-	-
Total	**(205)**	**(867)**	**(245)**	**(664)**	**(156)**	**(690)**
2021						
Agriculture and forestry	(12)	(6)	(13)	(4)	(7)	(3)
Mining	(1)	(1)	-	-	-	-
Manufacturing	(44)	(30)	(47)	(23)	(26)	(20)
Energy and water supply	(26)	(13)	(26)	(13)	(17)	(11)
Construction	(24)	(24)	(24)	(24)	(15)	(18)
Trade	(46)	(21)	(50)	(13)	(28)	(13)
Transport and communication	(36)	(29)	(40)	(17)	(23)	(19)
Hotels and restaurants	(4)	(359)	(57)	(109)	(3)	(308)
Financial and insurance services	(29)	-	(29)	-	(21)	-
Real estate and housing	(13)	(6)	(14)	(2)	(10)	(6)
Services	(6)	(28)	(12)	(11)	(3)	(20)
Public administration	(11)	(121)	(11)	(121)	(10)	(113)
Education, health and art	(14)	(22)	(20)	(3)	(8)	(16)
Private households	(45)	(133)	(45)	(133)	(45)	(126)
Other	(6)	(1)	(6)	(1)	(4)	(1)
Total	**(317)**	**(794)**	**(394)**	**(474)**	**(220)**	**(674)**

33. Scenarios used in forward looking information and COVID-19 Effect (continued)

Impact of different scenarios on credit risk exposure by industry

								BANK
Probability of default	Point in time (before FLI shift)		Upside scenario		Baseline scenario		Downside scenario	
in HRK million	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
2022								
Natural Resources & Commodities	9	(9)	5	(5)	3	(3)	(4)	4
of which cyclical	-	-	-	-	-	-	-	-
Energy	-	-	-	-	-	-	-	-
Construction and building materials	3	(3)	1	(1)	-	-	-	-
of which cyclical	-	-	-	-	-	-	-	-
Automotive	1	(1)	-	-	-	-	-	-
of which cyclical	-	-	-	-	-	-	-	-
Cyclical Consumer Products	1	(1)	-	-	-	-	(1)	1
Non-Cyclical Consumer Products	9	(9)	3	(3)	2	(2)	(2)	2
Machinery	-	-	-	-	-	-	-	-
of which cyclical	-	-	-	-	-	-	-	-
Transportation	8	(8)	-	-	-	-	-	-
of which cyclical	-	-	-	-	-	-	-	-
TMT and paper & packaging	22	(22)	-	-	-	-	(1)	1
of which cyclical	-	-	-	-	-	-	-	-
Healthcare & Services	10	(10)	2	(2)	1	(1)	(1)	1
of which cyclical	-	-	-	-	-	-	-	-
Hotels, Gaming & Leisure Industry	-	-	-	-	-	-	(1)	1
of which cyclical	-	-	-	-	-	-	-	-
Real Estate	1	(1)	-	-	-	-	-	-
of which cyclical	-	-	-	-	-	-	-	-
Public Sector	-	-	-	-	-	-	-	-
Financial Institutions	-	-	-	-	-	-	-	-
Private Households	26	(26)	11	(11)	5	(5)	(6)	6
Other	-	-	-	-	-	-	-	-
Total	**90**	**(90)**	**22**	**(22)**	**11**	**(11)**	**(16)**	**16**
2021								
Agriculture and forestry	19	(19)	11	(11)	13	(13)	(9)	9
Mining	-	-	-	-	-	-	-	-
Manufacturing	49	(49)	51	(51)	49	(49)	(105)	105
Energy and water supply	-	-	-	-	-	-	-	-
Construction	40	(40)	43	(43)	41	(41)	(40)	40
Trade	51	(51)	53	(53)	49	(49)	(51)	51
Transport and communication	32	(32)	69	(69)	30	(30)	(22)	22
Hotels and restaurants	1	(1)	1	(1)	1	(1)	(2)	2
Financial and insurance services	-	-	-	-	-	-	-	-
Real estate and housing	2	(2)	2	(2)	2	(2)	(3)	3
Services	9	(9)	8	(8)	8	(8)	(17)	17
Public administration	-	-	-	-	-	-	-	-
Education, health and art	6	(6)	5	(5)	5	(5)	(4)	4
Households	11	(11)	63	(63)	47	(47)	(55)	55
Other	1	(1)	1	(1)	1	(1)	(1)	1
Total	**221**	**(221)**	**307**	**(307)**	**246**	**(246)**	**(309)**	**309**

33. Scenarios used in forward looking information and COVID-19 Effect (continued)

Impact of different scenarios on credit loss allowances by industry

								BANK
	Point in time- (before FLI shift)		Upside scenario		Baseline scenario		Downside scenario	
in HRK million	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
2022								
Natural Resources & Commodities	6	10	-	2	-	1	-	(1)
of which cyclical	-	3	-	1	-	-	-	-
Energy	-	37	-	9	-	5	-	(3)
Construction and building materials	6	20	-	4	-	2	-	(2)
of which cyclical	-	19	-	4	-	2	-	(2)
Automotive	1	3	-	1	-	-	-	-
of which cyclical	-	2	-	1	-	-	-	-
Cyclical Consumer Products	3	7	-	2	-	1	-	(1)
Non-Cyclical Consumer Products	5	3	-	1	-	-	-	-
Machinery	1	2	-	-	-	-	-	-
of which cyclical	-	2	-	-	-	-	-	-
Transportation	4	10	-	2	-	1	-	(1)
of which cyclical	-	9	-	2	-	1	-	(1)
TMT and paper & packaging	3	2	-	-	-	-	-	-
of which cyclical	-	1	-	-	-	-	-	-
Healthcare & Services	4	3	-	1	-	1	-	-
of which cyclical	-	2	-	1	-	-	-	-
Hotels, Gaming & Leisure Industry	5	25	-	6	-	3	-	(2)
of which cyclical	-	25	-	6	-	3	-	(2)
Real Estate	1	11	-	3	-	1	-	(1)
of which cyclical	-	10	-	3	-	1	-	(1)
Public Sector	-	23	-	5	-	3	-	(2)
Financial Institutions	7	-	1	-	-	-	-	-
Private Households	6	23	1	9	1	5	-	(3)
Other	-	-	-	-	-	-	-	-
Total	**52**	**179**	**2**	**45**	**1**	**23**	**-**	**(16)**
2021								
Agriculture and forestry	5	4	4.00	3	4.00	3	(2.00)	(2)
Mining	-	-	-	-	-	-	-	-
Manufacturing	18	11	20	13	18	11	(8.00)	(20)
Energy and water supply	9	2	10.00	3	9.00	2	(6.00)	(1.00)
Construction	9	7	9	7	9	7	(5.00)	(6.00)
Trade	19	8	21.00	9	19.00	8	(11)	(9)
Transport and communication	13	11	14.00	13	13.00	11	(9.00)	(8)
Hotels and restaurants	1	50	1.00	61	1.00	51	(1.00)	(34)
Financial and insurance services	7	-	9.00	-	8.00	-	(5.00)	-
Real estate and housing	3	1	3.00	1	3.00	1	(2.00)	(1.00)
Services	3	8	3.00	9	3.00	8	(1.00)	(6)
Public administration	-	8	-	10	-	9	-	(6.00)
Education, health and art	5	6	6.00	7	6.00	6	(4.00)	(4.00)
Households	-	7	12	30	9	24	(6)	(19)
Other	2	-	3.00	-	2.00	-	(2.00)	-
Total	**94**	**123**	**115**	**166**	**104**	**141**	**(62)**	**(116)**

34. Restructuring, renegotiation and forbearance

Restructuring means contractual modification of any of the customer's loan repayment conditions including tenor, interest rate, fees, principle amount due or a combination thereof. Restructuring can be business restructuring (in retail) and commercial renegotiation (in corporate) or forbearance in line with EBA requirements in both segments.

Business restructuring and renegotiation
Restructuring as business restructuring in the retail segment or as commercial renegotiation in the corporate segment is a potential and effective customer retention tool involving repricing or the offering of an additional loan or both in order to maintain the Bank's valuable, good clientele.

Forbearance
In case the restructuring entails a concession towards a customer facing or about to face financial difficulties in meeting their contractual financial commitments, the restructuring is considered forbearance.
Forborne exposure is assessed at loan contract level and means only the exposure to which forbearance measures have been extended and excludes any other exposure the customer may have, as long as no forbearance was extended to these.

Concession means that any of the following conditions are met:
- Modification/refinancing of the contract would not have been granted, had the customer not been in financial difficulty,
- There is a difference in favour of the customer between the modified/refinanced and the previous terms of the contract,
- The modified/refinanced contract includes more favourable terms than other customers with similar risk profile could have obtained from the Bank.

Forbearance can be initiated by the Bank or by the customer (on account of loss of employment, illness etc.).

Forbearance measures are divided and reported as:
- Performing forbearance (incl. performing forbearance under probation that was upgraded from non-performing forbearance)
- Non-performing forbearance.

In the table below, comparison of forbearance and credit risk exposure and allowances is given for the Bank and the Group for 31 December 2022 and 31 December 2021.

Credit risk exposure, forbearance exposure and credit loss allowances

					GROUP
in HRK million	Loans and receivables	Debt securities	Loan commitments	Other positions	Total
2022					
Gross exposure	**67,792**	**20,121**	**12,402**	**6,385**	**106,700**
thereof gross forborne exposure	1,626	-	7	-	1,633
Performing exposure	65,478	20,121	12,373	6,344	104,316
thereof performing forborne exposure	974	-	5	-	979
Credit loss allowances for performing exposure	(934)	(73)	(168)	(63)	(1,238)
thereof credit loss allowances for performing forborne exposure	(100)	-	-	-	(100)
Non-performing exposure	2,314	-	29	41	2,384
thereof non-performing forborne exposure	652	-	2	-	654
Credit loss allowances for non-performing exposure	(1,518)	-	(1)	(26)	(1,545)
thereof credit loss allowances for non-performing forborne exposure	(317)	-	-	-	(317)

34. Restructuring, renegotiation and forbearance (continued)

Credit risk exposure, forbearance exposure and credit loss allowances (continued)

					GROUP
in HRK million	Loans and receivables	Debt securities	Loan commitments	Other positions	Total
2021					
Gross exposure	**61,401**	**16,858**	**6,163**	**5,519**	**89,941**
thereof gross forborne exposure	1,327	-	10	-	1,337
Performing exposure	58,291	16,858	6,146	5,497	86,792
thereof performing forborne exposure	533	-	6	-	539
Credit loss allowances for performing exposure	(1,061)	(86)	(83)	(66)	(1,296)
thereof credit loss allowances for performing forborne exposure	(39)	-	(1)	-	(40)
Non-performing exposure	3,110	-	17	22	3,149
thereof non-performing forborne exposure	794	-	4	-	798
Credit loss allowances for non-performing exposure	(2,131)	-	(5)	(14)	(2,150)
thereof credit loss allowances for non-performing forborne exposure	(442)	-	(1)	-	(443)

					BANK
in HRK million	Loans and receivables	Debt securities	Loan commitments	Other positions	Total
2022					
Gross exposure	**59,083**	**19,388**	**10,888**	**5,456**	**94,815**
thereof gross forborne exposure	1,473	-	6	-	1,479
Performing exposure	57,145	19,388	10,868	5,417	92,818
thereof performing forborne exposure	923	-	4	-	927
Credit loss allowances for performing exposure	(772)	(67)	(162)	(60)	(1,061)
thereof credit loss allowances for performing forborne exposure	(96)	-	-	-	(96)
Non-performing exposure	1,938	-	20	39	1,997
thereof non-performing forborne exposure	550	-	2	-	552
Credit loss allowances for non-performing exposure	(1,276)	-	(1)	(25)	(1,302)
thereof credit loss allowances for non-performing forborne exposure	(283)	-	-	-	(283)

					BANK
in HRK million	Loans and receivables	Debt securities	Loan commitments	Other positions	Total
2021					
Gross exposure	**53,418**	**16,086**	**4,885**	**4,667**	**79,056**
thereof gross forborne exposure	1,169	-	10	-	1,179
Performing exposure	50,811	16,086	4,877	4,646	76,420
thereof performing forborne exposure	455	-	6	-	461
Credit loss allowances for performing exposure	(883)	(80)	(76)	(66)	(1,105)
thereof credit loss allowances for performing forborne exposure	(32)	-	(1)	-	(33)
Non-performing exposure	2,607	-	8	21	2,636
thereof non-performing forborne exposure	714	-	4	-	718
Credit loss allowances for non-performing exposure	(1,798)	-	(1)	(17)	(1,816)
thereof credit loss allowances for non-performing forborne exposure	(410)	-	(1)	-	(411)

34. Restructuring, renegotiation and forbearance (continued)

Impact of non-significant contractual modifications of debt instruments AC assigned to Stage 2 and 3

				GROUP
		2021		2022
in HRK million	Amortised cost before the modification	Net Modification gains/ losses	Amortised cost before the modification	Net Modification gains/ losses
Loans and advances				
General governments	4	-	1	-
Non-financial corporations	85	-	23	-
Households	148	-	58	-
Total	**237**	**-**	**82**	**-**

				BANK
		2021		2022
in HRK million	Amortised cost before the modification	Net Modification gains/ losses	Amortised cost before the modification	Net Modification gains/ losses
Loans and advances				
General governments	4	-	1	-
Non-financial corporations	51	-	23	-
Households	134	-	56	-
Total	**189**	**-**	**80**	**-**

As at 31 December 2022, the total GCA of debt instruments measured at AC, which were impacted by non-significant contractual modifications during the year 2022 amounted to HRK 82 million for the Group and HRK 80 million for the Bank (2021: HRK 237 million for the Group and HRK189 million for the Bank).

The impact of contractual modifications (net modification losses) in the profit or loss of the year 2022 amounted loss in the amount of HRK 113 thousand for the Group and profit in the amount of HRK 331 thousand for the Bank (2021: HRK 715 thousand for the Group and HRK 830 thousand for the Bank).

35. Collaterals

Recognition of collateral
The Collateral Management unit is integrated in the Risk Management Division. The Collateral Management Policy defines, among other topics, uniform valuation standards for credit collateral across the entire Bank. It ensures that the credit risk decision processes are standardised with respect to accepted collateral values.

All collateral types acceptable within the Bank are defined by internal acts. The valuation and revaluation of collateral is done according to the principles defined in the Collateral Management Policy broken down by collateral type in accordance with the individual supervisory requirements.

Main types of credit collateral
Mostly, the following types of credit collateral are accepted:

_Real estate: residential and commercial real estate
_Financial collateral: securities portfolios, cash deposits and life insurance policies
_Guarantees: given by sovereigns, public sector entities and financial institutes. All guarantors must have a minimum credit quality, in accordance with regulatory requirements.

35. Collaterals (continued)

The Bank also accepts other collaterals such as movables, balance sheet netting, investment fund shares in accordance with European (EU) and local regulations.

Collateral valuation and management
Collateral valuation is based on current market prices while taking into account an amount that can be recovered within a reasonable period.
When calculating collateral coverage, the amount of coverage is adjusted through corrective factors, depending on the collateral type. Coverage by collateral disclosed in the financial statements is capped to the amount of relevant exposure.

Real estate valuation may only be performed by qualified valuators who are independent of the credit decision process. The valuation is to be made according to international, European or national standards. Internal guidelines define criteria of qualification and requirements of independence for the selection of valuators. A valuator may only perform two sequential valuations of the same asset, any further valuation has to result in the rotation of the valuator.

Impact of the energy efficiency, ESG data, i.e. information on energy efficiency of the collateral assets are systematically collected and stored in the relevant systems for documentation and reporting purposes.

The methods and discounts used for valuations are based on empirical data representing past experience of the Collection and Workout department and on the collected data on loss recovery from realising collateral. The valuation methods are adjusted regularly – at least once a year.

The revaluation of collateral is done periodically and is automated as far as possible. In the case of external data sources, the appropriate interfaces are used. The maximum periods for the revaluation of individual collateral assets are predefined. Apart from periodic revaluations, collateral is assessed when information becomes available that indicates a decrease in the value of the collateral for exceptional reasons.

The Bank performs regular annual concentration risk assessment which comprises an overview of credit risk mitigation techniques, but also a market risk overview from a perspective of received collaterals.

Repossession of Collaterals is highly selective and restrictive, while the assets repossessed made available for sale right away. In general, the Bank does not occupy repossessed properties for its own business use. Commercial assets slightly prevail over the Residential assets within the repossessed assets portfolio. The portfolio has been strongly reduced within the last years, as of 31 December 2022, the carrying value of the repossessed assets portfolio amounted to HRK 113 million.

Treasury collateral
The department Market an Liquidity Risk Management is responsible for treasury collateral framework. The Treasury Collateral Management Policy defines, among other things, uniform valuation standards for treasury collateral in the Bank. Under the framework of treasury collateral, netting agreements (international framework agreements for derivatives of the International Swap and Derivatives Association (ISDA), local framework agreements, framework agreements for securities lending and repurchase deals) as well as collateral agreements (e.g. ISDA Credit Support Annex) are used for reducing the credit risk from derivatives.

Netting agreements make it possible to net all amounts due or payable for each individual transaction under a framework agreement in the case of a credit default, with the result that only the net receivables vis-à-vis the business partner are of relevance for credit risk. Within the scope of these collateral agreements, the portfolio with the respective counterparty is revalued periodically, usually daily, and in case of insufficient coverage additional collateral is requested. The policy restrictions on collateral types ensure that collateral received predominantly consists of cash or securities of investment grade quality. In the case of securities used as collateral, an additional valuation discount (haircut) depending on credit quality and residual maturity is applied.

35. Collaterals (continued)

Credit risk exposure by financial instrument and collateral

GROUP

in HRK million	Total credit risk exposure	Collateral total	Collateralised by Guarantees	Collateralised by Real estate	Collateralised by Other	Credit risk exposure net of collateral	Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
2022									
Other demand deposits to credit institutions	670	-	-	-	-	670	209	461	-
Debt instruments held for trading	197	-	-	-	-	197	-	-	-
Non-trading debt instruments at FVPL	39	-	-	-	-	39	-	-	-
Debt instruments at FVOCI	10,053	-	-	-	-	10,053	10,053	-	-
Debt instruments at AC	73,336	28,837	7,008	19,375	2,454	44,499	69,710	1,493	2,133
Debt securities	10,029	-	-	-	-	10,029	10,029	-	-
Loans and advances to banks	2,893	143	-	-	143	2,750	2,893	-	-
and risk category	60,414	28,694	7,008	19,375	2,311	31,720	56,788	1,493	2,133
Trade and other receivables	1,422	96	-	5	91	1,326	1,199	110	113
Finance lease receivables	3,063	2,493	31	-	2,462	570	2,372	623	68
Off balance-sheet exposures	17,920	1,912	5	1,055	852	16,008	13,632	585	49
Total	**106,700**	**33,338**	**7,044**	**20,435**	**5,859**	**73,362**	**97,175**	**3,272**	**2,363**

GROUP

in HRK million	Total credit risk exposure	Collateral total	Collateralised by Guarantees	Collateralised by Real estate	Collateralised by Other	Credit risk exposure net of collateral	Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
2021									
Other demand deposits to credit institutions	442	-	-	-	-	442	112	330	-
Debt instruments held for trading	145	-	-	-	-	145	-	-	-
Non-trading debt instruments at FVPL	65	-	-	-	-	65	-	-	-
Debt instruments at FVOCI	11,853	-	-	-	-	11,853	11,853	-	-
Debt instruments at AC	62,278	23,945	4,881	16,153	2,911	38,333	58,081	1,336	2,861
Debt securities	4,940	-	-	-	-	4,940	4,940	-	-
Loans and advances to banks	4,410	382	-	-	382	4,028	4,410	-	-
Loans and advances to customers	52,928	23,563	4,881	16,153	2,529	29,365	48,731	1,336	2,861
Trade and other receivables	1,459	80	-	6	74	1,379	1,139	135	185
Finance lease receivables	2,604	2,160	1	-	2,159	444	1,944	595	65
Off balance-sheet exposures	11,095	1,548	2	921	625	9,547	11,006	49	40
Total	**89,941**	**27,733**	**4,884**	**17,080**	**5,769**	**62,208**	**84,135**	**2,445**	**3,151**

35. Collaterals (continued)

Credit risk exposure by financial instrument and collateral (continued)

									BANK
			Collateralised by						
in HRK million	Total credit risk exposure	Collateral total	Guarantees	Real estate	Other	Credit risk exposure net of collateral	Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
2022									
Other demand deposits to credit institutions	179	-	-	-	-	179	16	163	-
Debt instruments held for trading	197	-	-	-	-	197	-	-	-
Non-trading debt instruments at FVPL	39	-	-	-	-	39	-	-	-
Debt instruments at FVOCI	9,626	-	-	-	-	9,626	9,626	-	-
Debt instruments at AC	67,875	26,855	6,913	17,560	2,382	41,020	64,821	1,164	1,890
Debt securities	9,723	-	-	-	-	9,723	9,723	-	-
Loans and advances to banks	2,600	143	-	-	143	2,457	2,600	-	-
Loans and advances to customers	55,552	26,712	6,913	17,560	2,239	28,840	52,498	1,164	1,890
Trade and other receivables	931	95	-	5	90	836	868	15	48
Off balance-sheet exposures	15,968	1,742	5	960	777	14,226	11,894	567	41
Total	**94,815**	**28,692**	**6,918**	**18,525**	**3,249**	**66,123**	**87,225**	**1,909**	**1,979**

									BANK
			Collateralised by						
in HRK million	Total credit risk exposure	Collateral total	Guarantees	Real estate	Other	Credit risk exposure net of collateral	Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
2021									
Other demand deposits to credit institutions	110	-	-	-	-	110	32	78	-
Debt instruments held for trading	145	-	-	-	-	145	-	-	-
Non-trading debt instruments at FVPL	60	-	-	-	-	60	-	-	-
Debt instruments at FVOCI	11,350	-	-	-	-	11,350	11,350	-	-
Debt instruments at AC	57,321	22,192	4,767	14,591	2,834	35,129	53,855	938	2,528
Debt securities	4,676	-	-	-	-	4,676	4,676	-	-
Loans and advances to banks	4,325	382	-	-	382	3,943	4,325	-	-
Loans and advances to customers	48,320	21,810	4,767	14,591	2,452	26,510	44,854	938	2,528
Trade and other receivables	773	78	-	6	72	695	667	27	79
Off balance-sheet exposures	9,297	1,388	2	789	597	7,909	9,223	45	29
Total	**79,056**	**23,658**	**4,769**	**15,386**	**3,503**	**55,398**	**75,127**	**1,088**	**2,636**

36. Market risk

Definition and overview

Market risk is the risk of loss that may arise due to adverse changes in market prices and to the parameters derived therefrom. Market risk is divided into interest rate risk, currency risk and equity risk. This concerns both trading and banking book positions.

Methods and instruments employed

Potential losses that may arise from market movements are assessed using the Value at Risk (VaR). The calculation is done according to the method of historic simulation with a one-sided confidence level of 99%, a holding period of one day and a simulation period of two years. The VaR describes what level of losses may be expected as a maximum at a defined probability – the confidence level – within a certain holding period of the positions under normal market conditions.

Back-testing is used to constantly monitor the validity of the statistical methods. This process is conducted with a one-day delay to monitor if the model projections regarding losses have actually materialised. At a confidence level of 99%, the actual loss on a single day should exceed the VaR statistically only two to three times a year (1% of around 250 workdays).

This shows one of the limits of the VaR approach: on the one hand, the confidence level is limited to 99%, and on the other hand, the model takes into account only those market scenarios observed in each case within the simulation period of two years and calculates the VaR for the current position of the Bank on this basis. In order to investigate any extreme market situations beyond this, stress tests are conducted at the Bank. These events include mainly market movements of low probability.

The stress tests are carried out according to several methods: stressed VaR (SVaR) is derived from the normal VaR calculation. But instead of simulating only over the two most recent years, an analysis of a much longer period is carried out in order to identify a one-year period that constitutes a relevant period of stress for the current portfolio mix. According to the legal framework, that one-year period is used to calculate a VaR with a 99% confidence level. This enables the Bank on the one hand to hold sufficient own funds available for the trading book also in periods of elevated market volatility, while on the other hand also enabling it to incorporate these resulting effects in the management of trading positions.

Standard scenarios are calculated in which the individual market factors are exposed to extreme movements. Such scenarios are calculated at the Bank for interest rates, stock prices, exchange rates and volatilities. Historic scenarios are a modification of the concept of standard scenarios. In this case, risk factor movements after certain events such as 9/11 or the Lehman bankruptcy form the basis of the stress calculation. In order to calculate historical probabilistic scenarios, the most significant risk factors for the current portfolio are determined and their most adverse movement during the last years is applied. For the probabilistic scenarios shifts of important market factors are determined for various quantiles of their distributions, and these values are then used to calculate stress results. These analyses are made available to the Management Board and the Supervisory Board within the scope of the monthly market risk reports.

For the local capital requirements, the Bank and the Group are using the standardized model.

Methods and instruments of risk mitigation

The Bank manages market risks in the trading book by setting several layers of limits. The overall limit based on VaR for the trading book is decided by the Management Board while taking into account the risk-bearing capacity and projected earnings. A further breakdown is done by the Management Board and Market Risk Committee based on a proposal from the Market Risk Management unit.

36. Market risk (continued)

To all market risk activities of the trading book are assigned risk limits that are statistically consistent in their entirety with the VaR overall limit. The VaR limit is assigned in a top-down procedure to the individual trading units. This is done up to the level of the individual trading groups or departments. Additionally, in a bottom-up procedure, sensitivity limits are assigned to even smaller units all the way down to the individual traders. These are then aggregated upwards and applied as a second limit layer to the VaR limits. The consistency between the two limit approaches is verified regularly.

Limit compliance is verified at two levels: by the Market and Liquidity Risk Management Department in the Bank and by the Trading Book Risk Group. The monitoring of the limits is done within the course of the trading day based on sensitivities.
The VaR is calculated daily and is available and reported to the individual trading units as well as to the superior management levels all the way up to the Management Board.

Certain banking book positions are subjected to a daily VaR analysis. The total VaR is determined in the same manner as the VaR for the trading book.

Analysis of market risk

Value at Risk of banking book and trading book
The following tables show the VaR amounts as at 31 December 2022 and 31 December 2021 respectively at the 99% confidence level using equally weighted market data and with a holding period of one day:

Value at Risk of banking book and trading book 2022

in HRK thousand	Total	Interest	Currency	Shares	Volatility
Position held in non-Trading Book	20,520	20,479	591	1	368
Fair Value Through Other Comprehensive Income	29,621	29,629	44	-	4
Amortised Cost	-	-	-	-	-
Held for Trading	47	47	-	1	-

Value at Risk of banking book and trading book 2021

in HRK thousand	Total	Interest	Currency	Shares	Volatility
Position held in non-Trading Book	49,387	49,563	240	1	959
Fair Value Through Other Comprehensive Income	31,647	31,630	72	-	28
Amortised Cost	33,569	33,524	1	-	-
Held for Trading	56	55	-	-	-

Interest rate risk of banking book

Interest rate risk is the risk of an adverse change in both the earnings and economic value of financial instruments caused by a movement in market interest rates. This type of risk arises when mismatches exist between assets and liabilities, including derivatives, in respect of their maturities or of the timing of interest rate adjustments.

In order to identify interest rate risk, all interest bearing financial instruments, including off-balance are used to calculate the impact of certain interest rate scenarios on their economic value and their earnings. Limits and thresholds are implemented for both aspects of the IRRBB, the change in economic value as well as the change in earnings. Positions without contractually defined maturity or repricing structures, such as demand deposits or overdrafts are modelled accordingly, for positions where the customer has the right to prepay his debt prepayment models are applied. Interest rate risk calculations are done in accordance with EBA (EBA/GL/2018/02) guidelines.

Exchange rate risk

The Bank is exposed to several types of risks related to exchange rates. These concern risks from open foreign exchange positions and others.

36. Market risk (continued)

Risk from open currency positions is the risk related to exchange rates that derives from the mismatch between assets and liabilities, or from currency-related financial derivatives. These risks might originate from customer-related operations or proprietary trading and are monitored and managed on a daily basis. Foreign currency exposure is subject to regulatory and internal limits. The internal limits are approved by the Management Board and the Market Risk Committee.

The following table shows the largest open exchange rate positions of the Bank as of 31 December 2022 and the corresponding open positions of these currencies as of 31 December 2021.

Open exchange rate positions

in HRK thousand	2021	2022
Euro (EUR)	(60,313)	432,193
US Dollar (USD)	(3,918)	(31,776)
Swiss Franc (CHF)	947	989
Denar (MKD)	(587)	(598)
Australian Dollar (AUD)	220	559
Other ccy	(1,294)	(549)
Danish Krone (DKK)	218	507
Norwegian Krone (NOK)	993	495
Canadian Dollar (CAD)	475	483

Bank manages open FX risk positions according to its strategy and the aim is not to have significant exposures to FX risk. In cases of open FX position, above 2% of regulatory capital, Bank calculates capital charge for FX risk.

Credit spread risk

Credit spread risk is the risk of an adverse movement in the fair value of financial instruments caused by a change in the creditworthiness of an issuer perceived by the market. EBC Group is exposed to credit spread risk with respect to its securities portfolio in the banking book.

Quantifying the credit spread risk of the securities in the banking book is based on a historical simulation. The maximum (hypothetical) drawdown that can be attributed to credit related risk factors over one-year horizon is calculated. It is based on credit spread sensitivities (CR01) and the risk factors used are mainly asset swap spreads for sovereigns and iTRAXX CDS indices for financials and corporates. The resulting amount is used as part of the ICAAP calculations to determine the capital consumption of the banking book portfolio.

37. Liquidity risk

Definition and overview

The liquidity risk in the Bank is defined in line with the principles set out by the Basel Committee on Banking Supervision as well as the Regulation (EU) No 575/2013 (CRR) amended by the Regulation (EU) No 2019/876 (CRR 2), Commission Delegated Regulation (EU) 2022/786 amending Commission Delegated Regulation (EU) 2015/61 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Couniland the Decision on governance arrangements by Croatian National Bank. Accordingly, a distinction is made between market liquidity risk, which is the risk that the Bank cannot easily offset or close a position at the market price because of inadequate market depth or market disruption, and funding liquidity risk, which is the risk that the Bank will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition.

Funding liquidity risk is further divided into insolvency risk and structural liquidity risk. The former is the short-term risk that current or future payment obligations cannot be met in full and on time in an economically justified manner, while structural liquidity risk is the long-term risk of losses due to a change in the Bank's own refinancing cost or spread.

The Bank continues its ongoing project activities to improve the framework for liquidity risk reporting. Current projects are aimed at continuously improving the internal stress testing methodology and the data quality used in the risk measurement.

Liquidity strategy

In 2022, the growth trend of deposits from previous years continued. A record growth in client deposits was recorded, and they remained the Bank's primary source of financing. On the asset side, the volume of loans also recorded significant growth, but below the level of deposit growth. The aforementioned developments, along with regulatory changes due to entry into the eurozone on January 1, 2023, generated a significant accumulation of liquidity excess. The largest part of liquidity excess was recorded in the position of growth of deposits with the central bank, while the remaining amount was invested in highly liquid government bonds.

In 2022, the Bank had no new bonds issuances, both on the domestic and international markets. At the end of November 2022, a bond with a volume of EUR 50 million, issued in 2017 on the local market, was repaid at its regular maturity. The Bank's liquidity excess was also used to repay EUR 44 million of long-term financing from supranational institutions at regular maturity.

Liquidity ratios

The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) have been implemented as ratios relevant for regulatory purposes, in line with the Commission Delegated Regulation (EU) 2022/786 amending Commission Delegated Regulation (EU) 2015/61 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Counil (LCR DA) and Regulation (EU) No 575/2013 (CRR) amended by the Regulation (EU) No 2019/876 (CRR 2). The LCR represents a ratio of highly liquid assets on the one hand and net cash outflows over a 30 day time horizon on the other. The minimum ratio has been set at 100%. As of June 2021 the NSFR became binding minimum requirement according to the CRR IIand represents a ratio of available stable funding on the one hand and required stable funding on the other, within a 12 month time horizon

Methods and instruments used for measurement of liquidity risk

The short-term insolvency risk is monitored by calculating the survival period in total and for major currencies. This analysis determines the maximum period during which the entity can survive a set of defined scenarios, including a severe combined market and idiosyncratic crisis while relying on its pool of liquid assets. The monitored worst-case scenario simulates very limited money market and capital market access and at the same time significant client deposit outflow. Furthermore, the simulation assumes increased drawdown on guarantees and loan commitments dependent on the type of the customer, as well as the potential outflows from collateralised derivative transactions by estimating the effect from collateral outflow in the case of adverse market movements.

37. Liquidity risk (continued)

As far back as 2011, the Bank's liquidity risk control has been based on the new Basel III liquidity risk measures, especially Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). Internally, the ratios are monitored on the Bank and Group of credit instituons level and are part of the Risk Apetite Statement (RAS) targeting to be well above the regulatory requirements and are reported to the Operational Liquidity Committee (OLC) as well as to the management board during the Asset and Liability Committee (ALCO). From 1 January 2017, Liquidity Coverage Ratio (LCR) is monitored daily. At the end of 2022, both LCR and NSFR for the Bank were above 100%.
Additionally, the traditional liquidity gaps (depicting the going concern maturity mismatches) of the Bank are reported and monitored regularly, as part of the Structural liquidity ratio (STRL). Funding concentration risk is continuously analysed in respect to counterparties. The Bank's fund transfer pricing (FTP) system has also proven to be an efficient tool for structural liquidity risk management.

Methods and instruments of liquidity risk mitigation

General standards of liquidity risk controlling and management (standards, limits and analysis) have been defined and are continuously reviewed and improved by the Bank.
The short-term liquidity risk is managed by limits resulting from the survival period model and by internal LCR targets. Limit breaches are reported to the Asset Liability Committee (ALCO). Another important instrument for managing the liquidity risk within the Bank is the FTP system. As the process of planning funding needs provides important data for liquidity management, a detailed overview of funding needs is prepared for the planning horizon.
The Comprehensive Contingency Plan ensures the necessary coordination of all parties involved in the liquidity management process in case of crisis and is reviewed on a regular basis.

Analysis of liquidity risk

Liquidity coverage ratio
The Bank uses the regulatory liquidity coverage ratio according to the LCR DA for internal monitoring and steering of the liquidity position as well. To keep the LCR DA above both limits, the regulatory limit and the internal limit, the Bank monitors daily its short-term liquidity inflows and outflows as well as its available counterbalancing capacity.

The following table shows the LCR DA as of 31 December 2022 and 31 December 2021:

		BANK
	2021	2022
Liquidity Coverage Ratio (LCR)	190%	220%

Structural liquidity

The long-term liquidity position is monitored using structural funding gaps ensuring an appropriate balance between assets and liabilities in the medium and long term time horizons avoiding excessive maturities transformation and consequently increased pressure on the short-term liquidity position.

The following table shows the ratio between all long-term maturing liabilities and all long-term maturing assets as of 31 December 2022 and 31 December 2021 which is calculated reverse cumulatively per time bucket. Ratio is based on contractual or modelled run-off cash flows and has a comprehensive coverage of on- and off- balance sheet components.

			BANK
2022	> 1 year	> 2 years	> 3 years
Structural liquidity ratio	1.21	1.23	1.24

			BANK
2021	> 1 year	> 2 years	> 3 years
Structural liquidity ratio	1.24	1.21	1.21

37. Liquidity risk (continued)

Counterbalancing capacity

The Bank regularly monitors its counterbalancing capacity, which consists of cash, excess minimum reserve at the Central Banks as well as unencumbered Central Bank eligible assets and other liquid securities, including changes from repos and reverse repos. These assets can be mobilised in the short term to offset potential cash outflows in a crisis situation. The term structure of the Bank's counterbalancing capacity as of 2022 year end and 2021 year end are shown in the tables below:

Term structure of counterbalancing capacity 2022

in HRK million	< 1 week	1 week(1) month	1(3) months	3(6) months	6(12) months
Cash, excess reserve	23,571	-	-	-	-
Liquid assets	14,310	-	(186)	(50)	(2,069)
Counterbalancing capacity	**37,881**	**-**	**(186)**	**(50)**	**(2,069)**

Term structure of counterbalancing capacity 2021

in HRK million	< 1 week	1 week(1) month	1(3) months	3(6) months	6(12) months
Cash, excess reserve	8,842	-	-	-	-
Liquid assets	12,589	(8)	(1,037)	(429)	(281)
Counterbalancing capacity	**21,431**	**(8)**	**(1,037)**	**(429)**	**(281)**

The figures above show the total amount of potential liquidity available for the Bank in a going concern situation, taking into account the applicable central bank haircuts.

37. Liquidity risk (continued)

Contractual Undiscounted Cash Flows from Financial liabilities

Maturities of contractual undiscounted cash flows from financial liabilities as at 31 December 2022 and 31 December 2021 respectively, were as follows:

Undiscounted financial liabilities

2022						GROUP
in HRK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**100,040**	**100,416**	**76,020**	**12,710**	**7,591**	**4,095**
Deposits by banks	10,991	11,090	5,396	1,552	3,908	234
Customer deposits	84,198	84,217	69,716	10,840	3,041	620
Debt securities in issue	3,646	3,884	12	302	350	3,220
Subordinated liabilities	226	246	-	-	246	-
Finance lease liabilities	91	90	10	14	45	21
Other financial liabilities	888	889	886	2	1	-
Derivative liabilities	**175**	**176**	**(2)**	**11**	**29**	**138**
Derivatives liabilities with netted Cash Flows	-	165	-	1	26	138
Derivatives liabilities with gross Cash Flow (net)	-	11	(2)	10	3	-
Outflows	-	2,196	1,145	817	234	-
Inflows	-	(2,185)	(1,147)	(807)	(231)	-
Contingent liabilities	**-**	**14,265**	**14,265**	**-**	**-**	**-**
Financial guarantees	-	5,518	5,518	-	-	-
Irrevocable commitments	-	8,747	8,747	-	-	-
Total	**100,215**	**114,857**	**90,283**	**12,721**	**7,620**	**4,233**

2021						GROUP
in HRK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**79,658**	**80,059**	**53,636**	**11,989**	**9,780**	**4,654**
Deposits by banks	6,307	6,362	748	1,437	3,570	607
Customer deposits	68,268	68,305	52,122	10,156	5,238	789
Debt securities in issue	4,010	4,284	13	380	661	3,230
Subordinated liabilities	226	260	-	-	260	-
Finance lease liabilities	99	99	10	12	49	28
Other financial liabilities	748	749	743	4	2	-
Derivative liabilities	**56**	**59**	**5**	**32**	**4**	**18**
Derivatives liabilities with netted Cash Flows	-	20	-	-	2	18
Derivatives liabilities with gross Cash Flow (net)	-	39	5	32	2	-
Outflows	-	3,732	1,662	1,830	240	-
Inflows	-	(3,693)	(1,657)	(1,798)	(238)	-
Contingent liabilities	**-**	**12,363**	**12,363**	**-**	**-**	**-**
Financial guarantees	-	4,933	4,933	-	-	-
Irrevocable commitments	-	7,430	7,430	-	-	-
Total	**79,714**	**92,481**	**66,004**	**12,021**	**9,784**	**4,672**

37. Liquidity risk (continued)

Undiscounted financial liabilities (continued)

2022						BANK
in HRK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**92,103**	**92,419**	**72,498**	**10,867**	**5,257**	**3,797**
Deposits by banks	7,431	7,473	5,346	188	1,939	-
Customer deposits	80,413	80,431	66,843	10,356	2,676	556
Debt securities in issue	3,646	3,884	12	302	350	3,220
Subordinated liabilities	226	246	-	-	246	-
Finance lease liabilities	93	91	4	20	46	21
Other financial liabilities	294	294	293	1	-	-
Derivative liabilities	**175**	**176**	**(2)**	**11**	**29**	**138**
Derivatives liabilities with netted Cash Flows	-	165	-	1	26	138
Derivatives liabilities with gross Cash Flow (net)	-	11	(2)	10	3	-
Outflows	-	2,196	1,145	817	234	-
Inflows	-	(2,185)	(1,147)	(807)	(231)	-
Contingent liabilities	**-**	**12,502**	**12,502**	**-**	**-**	**-**
Financial guarantees	-	5,080	5,080	-	-	-
Irrevocable commitments	-	7,422	7,422	-	-	-
Total	**92,278**	**105,097**	**84,998**	**10,878**	**5,286**	**3,935**

2021						BANK
in HRK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**72,478**	**72,846**	**50,545**	**10,454**	**7,771**	**4,076**
Deposits by banks	3,016	3,040	616	402	1,907	115
Customer deposits	64,927	64,962	49,716	9,655	4,888	703
Debt securities in issue	4,010	4,284	13	380	661	3,230
Subordinated liabilities	226	260	-	-	260	-
Finance lease liabilities	100	101	2	16	55	28
Other financial liabilities	199	199	198	1	-	-
Derivative liabilities	**56**	**59**	**5**	**32**	**4**	**18**
Derivatives liabilities with netted Cash Flows	-	20	-	-	2	18
Derivatives liabilities with gross Cash Flow (net)	-	39	5	32	2	-
Outflows	-	3,732	1,662	1,830	240	-
Inflows	-	(3,693)	(1,657)	(1,798)	(238)	-
Contingent liabilities	**-**	**9,297**	**9,297**	**-**	**-**	**-**
Financial guarantees	-	4,413	4,413	-	-	-
Irrevocable commitments	-	4,884	4,884	-	-	-
Total	**72,534**	**82,202**	**59,847**	**10,486**	**7,775**	**4,094**

38. Operational risk

Definition and overview

Pursuant to Article 4 (52) of CRR, the Bank defines operational risk as the risk of loss resulting from inadequacy or failure of internal processes, people or systems, or from external events, including legal risk, model risk and information and communication technology risk, but not strategic and reputational risk. Both quantitative and qualitative methods are used to identify operational risk and are refined further in order to capture all information relevant to risk management.

Operational risk events are categorized within seven event types: Internal fraud, External fraud, Employment practices and workplace safety, Clients, products and business practices, Damage to physical assets, Business disruption and system failures and, Execution, delivery and process management.

Operational Risk Framework and Standards

For managing operational risk the Bank applies following elements: identification of operational risk, assessment, mitigation and acceptance of operational risk, quantification of operational risk and monitoring, controlling and reporting of operational risk.
When determining the operational risk exposure for the Bank, qualitative and quantitative tools have been applied.
The quantitative analysis of operational risk includes collection of internal and external loss event data where particular emphasis is put on the data classification and quality necessary for quantifying operational risk. Furthermore, the Bank uses external operational risk loss data and scenario analysis which are implemented to analyse possible future losses which the Bank has not experienced yet.
For the qualitative analysis risk and control self-assessments (RCSA) has to be performed on a regular basis and corrective measures have to be implemented by relevant organizational unit for high risk points where internal controls are not adequate or efficient.
An objective in the identification of operational risk is to establish key risk indicators such as system availability, staff turnover, customer complaints, which are measured and give a timely indication regarding changes in the operational risk profile.

The Bank locally applies The Standardised Approach – TSA for operational risk capital requirements calculation.

The Bank is included in the insurance program for operational risk on the Erste Group level (Captive Insurance) which offers risk mitigating effect on operational risk losses and is incorporated into capital requirement calculation using Advanced Measurement Approach on Erste Group’s consolidated level.

The Bank's Management Board is informed on operational risk through Operational Risk Quarterly Report which includes operational risk exposure and losses, risk assessments results, key risk indicators and corrective measures. Non-Financial Risk management committee is held at minimum on a quarterly basis which decides also on operational risk management related topics.

Non-current assets and other investments

Property and equipment

Property and equipment are measured at cost less accumulated depreciation and any accumulated impairment. The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that property and equipment. Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. Depreciation is reported in the statement of profit or loss in the line item 'Depreciation and amortisation' and impairment in the line item 'Other operating result'.

The estimated economic useful lives are set out below:

	Useful life in years	
	2021	2022
Buildings	40	40
Office furniture and equipment	3-10	3-10
Motor vehicles	4-6	4-6
Computer hardware	4	4

Land is not depreciated.

Property and equipment are derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the statement of profit or loss in the line item 'Other operating result'.

Investment properties

Investment property is a property (land and buildings or part of a building or both) held for the purpose of earning rentals and/or for capital appreciation. In case of partial own use, the property is investment property only if the owner-occupied portion is insignificant. Investments in land and buildings under construction when the future use is expected to be the same as for investment property are treated as investment property.

Investment property is initially measured at cost, including transaction costs. Subsequently, investment property is measured at cost less accumulated amortisation and impairment. Investment property is presented in the statement of financial position under the line item 'Investment properties'.

Rental income is recognised and presented in the statement of profit or loss in the line item 'Rental income from investment properties and other operating leases'. Depreciation is recognised and presented in the statement of profit or loss in the line 'Depreciation and amortisation' using the straight-line method over an estimated useful life. The useful lives of investment properties are identical to those of buildings presented under 'Property and equipment'. Any impairment losses, as well as their reversals, are recognised in the statement of profit or loss and presented in the line item 'Other operating result'.

Assets under operating leases

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. The leased asset is presented by the lessor in the statement of financial position under the line item 'Property and equipment'.
Initial direct costs of obtaining the lease are added to the underlying asset and recognised as an expense over the lease term on the same basis as the lease income.
For assets held under operating lease the Group uses a depreciation policy which is consistent with the normal depreciation policy for similar assets. Depreciation is recognised and presented in the statement of profit or loss in the line item 'Depreciation and amortisation'.
Lease income arising is accounted for on a straight-line basis over the lease terms and presented in the statement of profit or loss in the line item 'Rental income from investment properties and other operating leases'.
The Group's policy is the sale of assets under the operating lease after the termination of the lease.

Right of use assets

Under IFRS 16, the Group as a lessee recognises a right-of-use asset representing its right to use the underlying asset.
The right-of-use asset is initially measured at cost. The cost comprises the amount of the initial measurement of the lease liability and includes other elements such as initial direct costs incurred by the lessee. The right-of-use assets is presented in the statement of financial position under the line item ‘Property and equipment’. Subsequently, the right-of-use asset is depreciated to the earlier of the end of its useful life or the end of the lease term. The Group uses the straight-line method of depreciation. The useful lives for property are between 2 and 15 years while the motor vehicles are depreciated based on useful lives between 2 and 6 years. Depreciation is reported in the statement of profit or loss in the line item ‘Depreciation and amortisation’ and impairment in the line item ‘Other operating result’.

Impairment of non-financial assets (property and equipment, investment properties, right of use assets)

The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. Testing for impairment is done at individual asset level if the asset generates cash inflows that are largely independent of those from other assets. The typical case is investment property. Otherwise, the impairment test is carried out at the level of the cash-generating unit (CGU) to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

If any indication of impairment exists, or when annual impairment testing for an asset is required, the Group estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of the assets or CGU's fair value less costs of disposal and its value in use. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In measuring value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

At each reporting date an assessment is made as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset’s or CGU’s recoverable amount. The previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Impairment losses and their reversals are recognised in profit or loss and presented in the statement of profit or loss under the line item ‘Other operating result’.

39. Property, equipment and Investment properties

Acquisition costs

Own property, equipment and investment properties

GROUP

in HRK million	Property and equipment – Acquisition costs					
	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 1 January 2021	**922**	**345**	**397**	**397**	**2,061**	**12**
Additions (+)	22	26	43	64	155	1
Disposals (-)	(4)	(18)	(19)	(128)	(169)	-
Disposal of group	-	-	-	-	-	-
Reclassification	-	-	-	-	-	-
Assets held for sale	(3)	(1)	(2)	-	(6)	(8)
Currency translation	-	-	-	-	-	-
Balance as at 31 December 2021	**937**	**352**	**419**	**333**	**2,041**	**5**
Additions (+)	34	33	54	65	186	8
Disposals (-)	(6)	(19)	(17)	(86)	(128)	-
Addition to group	-	2	-	8	10	-
Reclassification	2	1	(2)	-	1	(2)
Assets held for sale	(6)	-	-	-	(6)	-
Currency translation	-	-	-	-	-	-
Balance as at 31 December 2022	**961**	**369**	**454**	**320**	**2,104**	**11**

Accumulated depreciation

Own property, equipment and investment properties

GROUP

in HRK million	Property and equipment – Accumulated depreciation					
	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 1 January 2021	**(299)**	**(243)**	**(238)**	**(145)**	**(925)**	**(7)**
Depreciation (-)	(20)	(30)	(58)	(52)	(160)	-
Disposals (+)	4	18	18	81	121	-
Disposal of group	-	-	-	-	-	-
Impairment	-	-	-	-	-	-
Reclassification	-	-	-	-	-	-
Assets held for sale	2	-	1	-	3	5
Balance as at 31 December 2021	**(313)**	**(255)**	**(277)**	**(116)**	**(961)**	**(2)**
Depreciation (-)	(20)	(28)	(57)	(47)	(152)	-
Disposals (+)	2	18	17	51	88	-
Addition to group	-	(3)	-	(4)	(7)	-
Impairment	-	-	-	-	-	-
Reclassification	-	-	-	-	-	-
Assets held for sale	3	-	-	-	3	-
Balance as at 31 December 2022	**(328)**	**(268)**	**(317)**	**(116)**	**(1,029)**	**(2)**

39. Property, equipment and Investment properties (continued)

Carrying amounts

Own property, equipment and investment properties

GROUP						
	Property and equipment					
in HRK million	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 31 December 2021	**624**	**97**	**142**	**217**	**1,080**	**3**
Balance as at 31 December 2022	**633**	**101**	**137**	**204**	**1,075**	**9**

Rights of use: property, equipment and investment properties

GROUP						
	Property and equipment					
in HRK million	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 31 December 2021	**97**	**2**	**-**	**-**	**99**	**-**
Balance as at 31 December 2022	**89**	**2**	**-**	**-**	**91**	**-**

Acquisition costs

Own property, equipment and investment properties

BANK						
	Property and equipment – Acquisition costs					
in HRK million	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 1 January 2021	**761**	**296**	**242**	**-**	**1,299**	**7**
Additions (+)	17	20	34	-	71	-
Disposals (-)	(4)	(16)	(8)	-	(28)	-
Reclassification	-	-	-	-	-	-
Assets held for sale	(3)	-	-	-	(3)	(7)
Balance as at 31 December 2021	**771**	**300**	**268**	**-**	**1,339**	**-**
Additions (+)	33	30	45	-	108	-
Disposals (-)	(6)	(15)	(10)	-	(31)	-
Reclassification	1	1	(1)	-	1	-
Assets held for sale	-	-	-	-	-	-
Balance as at 31 December 2022	**799**	**316**	**302**	**-**	**1,417**	**-**

39. Property, equipment and Investment properties (continued)

Accumulated depreciation

Own property, equipment and investment properties

BANK

in HRK million	Property and equipment – Accumulated depreciation: Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 1 January 2021	**(268)**	**(206)**	**(114)**	**-**	**(588)**	**(5)**
Depreciation (-)	(15)	(26)	(44)	-	(85)	-
Disposals (+)	3	15	8	-	26	-
Impairment	-	-	-	-	-	-
Reclassification	-	-	-	-	-	-
Assets held for sale	2	-	-	-	2	5
Balance as at 31 December 2021	**(278)**	**(217)**	**(150)**	**-**	**(645)**	**-**
Depreciation (-)	(16)	(25)	(47)	-	(88)	-
Disposals (+)	3	15	9	-	27	-
Impairment	-	-	-	-	-	-
Reclassification	-	-	-	-	-	-
Assets held for sale	-	-	-	-	-	-
Balance as at 31 December 2022	**(291)**	**(227)**	**(188)**	**-**	**(706)**	**-**

Own property, equipment and investment properties

BANK

in HRK million	Property and equipment: Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 31 December 2021	**493**	**83**	**118**	**-**	**694**	**-**
Balance as at 31 December 2022	**508**	**89**	**114**	**-**	**711**	**-**

Rights of use: property, equipment and investment properties

BANK

in HRK million	Property and equipment: Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 31 December 2021	**88**	**10**	**-**	**-**	**98**	**-**
Balance as at 31 December 2022	**82**	**9**	**-**	**-**	**91**	**-**

In the reporting period, expenditures in the amount of HRK 140 million and 131 million for the Group and the Bank respectively (2021: HRK 119 million for the Group and and HRK 112 million for the Bank) are capitalised in the carrying amount of fixed assets during their construction. The contractual commitments for purchase of fixed assets amounted to HRK 21 million for the Group and the Bank as of 31 December 2022 (2021: HRK 20 million for the Group and the Bank).

As of 31 December 2022, the Group's property and equipment amounted to HRK 1,166 million (2021: HRK 1,179 million). The carrying amount of property and equipment of HRK 195 million (2021: HRK 208 million) was leased under operating lease of which the amount of HRK 191 million (2021: HRK 206 million) relates to movable property, and the reamining amount of HRK 4 million (2021: HRK 2 million) relates to land and buildings.

As of 31 December 2022, the Bank's property and equipment amounted to HRK 802 million (2021: HRK 792 million). The carrying amount of property and equipment of HRK 13 million (2021: HRK 13 million) relates to land and buildings leased under operating lease.

For details related to right of use assets capitalized in balance sheet arising from leases where Group is lessee, please see Note 43 Group as a lessee.

39. Property, equipment and Investment properties (continued)

Fair values of non-financial assets

As of 31 December 2022, the fair value of investment properties with a carrying amount of HRK 9 million for the Group and nil for the Bank (2021: HRK 3 million for the Group and nil for the Bank) amounts to HRK 12 million for the Group (2021: HRK 5 million) and is classified as level 3 of the fair value hierarchy.

For non-financial assets owned by the Group the valuations are carried out using the comparative and investment methods. Assessment is made on basis of a comparison and analysis of appropriate comparable investment and rental transactions, together with evidence of demand within the vicinity of the relevant property. The characteristics of such similar transactions are then applied to the asset, taking into account size, location, terms, covenant and other material factors. Such measurements are presented in Level 3 of the fair value hierarchy.

Information about Fair values of assets held for sale is provided in Note 53 Assets held for sale and liabilities associated with assets held for sale

40. Intangible assets

Goodwill

Goowill arises from business combinations whereby a subsidiary is acquired. Subsequently, goodwill is carried at cost as established on the acquisition date, less accumulated subsequent impairment losses, if any. For more details on measurement of goodwill at the acquisition date refer to Note 48 Subsidiaries.

Other intangible assets

In addition to goodwill, the Group's intangible assets include computer software, customer relationships and other intangible assets. An intangible asset is recognised only when its cost can be measured reliably, and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. Costs of internally generated software are capitalised if the Group can demonstrate the technical feasibility and intention of completing the software, the ability to use it, how it will generate probable economic benefits, the availability of resources and the ability to measure the expenditures reliably. Following inital recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The cost of intangible assets acquired in a business combination is their fair value as of the date of acquisition. In the Group, these are customer relationships, and they are capitalised on acquisition if they can be measured with sufficient reliability.

Intangible assets with finite lives are amortised over their useful economic lives using the straight-line method. The amortisation period and method are reviewed at least at each financial year-end and adjusted if necessary. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss under the line item 'Depreciation and amortisation'.

The estimated useful lives are as follows:

	Useful life in years	
	2021	2022
Software	4	4
Core banking software	6	6
Other intangible assets	5	5

Impairment of intangible assets including goodwill

Goodwill arising on acquisition of a business is carried at cost as established, as the date of acquisition of the business less accumulated subsequent impairment losses, if any.
Goodwill is tested for impairment annually in November, or whenever there is an indication of possible impairment during the year, with any impairment determined recognised in profit or loss.
The impairment test is carried out for each cash-generating unit (CGU) to which goodwill has been allocated. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

Goodwill is tested for impairment by comparing the recoverable amount of each CGU, to which goodwill has been allocated with its carrying amount. The carrying amount of a CGU is derived based on the amount of equity allocated to CGU taking into account any goodwill and unamortised intangible assets recognised at the time of business combination if they are allocated to the CGU.

The recoverable amount is the higher of a CGU's fair value less costs of disposal and its value in use. When available, the fair value less costs of disposal is determined based on recent transactions, market quotations or appraisals. The value in use is determined using a discounted cash flow model (DCF-model), which incorporates the specifics of the banking business and its regulatory environment. In determining value in use, the present value of future earnings distributable to shareholders is calculated.

40. Intangible assets (continued)

The estimation of future earnings distributable to shareholders is based on financial plans for CGUs as agreed by the management taking into account the fulfilment of the respective regulatory capital requirements. The planning period range is five years. Any forecasted earnings beyond the planning period are derived on the basis of the last year of the planning period and a long-term growth rate, which is based on macroeconomic parameters for each CGU. The estimated future earnings beyond the initial planning period are captured in the terminal value (TV).

The value in use is determined by discounting the cash flows at a rate that takes into account present market rates and the specific risks of the CGU. The discount rates applied to calculate present values have been determined based on the capital asset pricing model (CAPM). According to CAPM, the discount rate comprises a risk-free interest rate together with a market risk premium that itself is multiplied by a factor that represents the systematic market risk (beta factor). Furthermore, a country-risk premium is considered in calculation of the discount rate. The values used to establish the discount rates are determined using external sources of information.
When the recoverable amount of CGU is less than its carrying amount, the difference is recognized as an impairment loss in the statement of profit or loss and reported under the line item 'Other operating result'. The impairment loss is allocated first to writing down the CGU's goodwill. Any remaining impairment loss reduces the carrying amount of the remaining individual assets of the CGU, though not to an amount lower than their fair value less costs of disposal. Impairment loss is not recognised if the recoverable amount of the CGU is higher than or equal to its carrying amount. Impairment losses relating to goodwill cannot be reversed in future periods.

Acquisition costs

					GROUP
	Acquisition costs				
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2021	**607**	**181**	**314**	**299**	**1,401**
Additions (+)	-	-	41	17	58
Disposals (-)	-	-	(1)	(6)	(7)
Disposal of group	-	-	-	-	-
Reclassification	-	-	-	-	-
Assets held for sale				(10)	(10)
Currency translation	-	-	(1)	-	(1)
Balance as at 31 December 2021	**607**	**181**	**353**	**300**	**1,441**
Additions (+)	-	-	31	10	41
Disposals (-)	-	-	-	-	-
Addition to group	-	-	1	-	1
Disposal of group	-	-	-	-	-
Reclassification	-	-	-	-	-
Currency translation	-	-	-	-	-
Balance as at 31 December 2022	**607**	**181**	**385**	**310**	**1,483**

Accumulated depreciation

					GROUP
	Accumulated depreciation				
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2021	**(435)**	**(181)**	**(184)**	**(211)**	**(1,011)**
Amortisation (-)	-	-	(38)	(31)	(69)
Disposals (+)	-	-	1	6	7
Disposal of group	-	-	-	-	-
Reclassification	-	-	-	-	-
Assets held for sale				7	7
Impairment	(48)	-	-	-	(48)
Balance as at 31 December 2021	**(483)**	**(181)**	**(221)**	**(229)**	**(1,114)**
Amortisation (-)	-	-	(46)	(28)	(74)
Disposals (+)	-	-	-	-	-
Disposal of group	-	-	-	-	-
Reclassification	-	-	-	-	-
Impairment	(124)	-	-	-	(124)
Balance as at 31 December 2022	**(607)**	**(181)**	**(267)**	**(257)**	**(1,312)**

40. Intangible assets (continued)

Carrying amounts

					GROUP
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 31 December 2021	**124**	**-**	**132**	**71**	**327**
Balance as at 31 December 2022	**-**	**-**	**118**	**53**	**171**

Goodwill and customer relationship carrying amount in whole relates to Erste Card Club d.o.o.

Acquisition costs

					BANK
	Acquisition costs				
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2021	**-**	**-**	**244**	**114**	**358**
Additions (+)	-	-	35	5	40
Disposals (-)	-	-	-	(1)	(1)
Reclassification	-	-	-	-	-
Balance as at 31 December 2021	**-**	**-**	**279**	**118**	**397**
Additions (+)	-	-	22	1	23
Disposals (-)	-	-	1	-	1
Reclassification	-	-	-	-	-
Balance as at 31 December 2022	**-**	**-**	**302**	**119**	**421**

Accumulated depreciation

					BANK
	Accumulated depreciation				
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2021	**-**	**-**	**(143)**	**(80)**	**(223)**
Amortisation (-)	-	-	(33)	(7)	(40)
Disposals (+)	-	-	-	1	1
Reclassification	-	-	-	-	-
Balance as at 31 December 2021	**-**	**-**	**(176)**	**(86)**	**(262)**
Amortisation (-)	-	-	(39)	(8)	(47)
Disposals (+)	-	-	-	-	-
Reclassification	-	-	-	-	-
Balance as at 31 December 2022	**-**	**-**	**(215)**	**(94)**	**(309)**

Carrying amounts

					BANK
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 31 December 2021	**-**	**-**	**103**	**32**	**135**
Balance as at 31 December 2022	**-**	**-**	**87**	**25**	**112**

Software acquired column relates to core banking system.

40. Intangible assets (continued)

Goodwill

The goodwill impairment assessment for the year 2022 and 2021 addressed the subsidiary Erste Card Club d.o.o. (CGU).

For these purposes we used discounted cash flow method, based on budgeted figures of Erste Card Club d.o.o. for the period of 2022 till 2027. Discount rate applied to determine the value in use was 14.54% (2021: 11.90%).

The business of Erste Card Club d.o.o. in 2022 is stable despite the impact of COVID-19, the war in Ukraine and inflation. In challenging business environment, regulatory requirements, digital technologies, new foreign competition (TPP and cross-border acquirers) and especially the pressure of merchants on MSC fees will make card business and its profitability more uncertain after 2022. In the periods after 2024, a decrease in operating income is expected in Erste Card Club d.o.o. due to the market situation, entry into EMU and due to further competitive pressure on cooperation with merchants and customers, and the volume of transactions and margins and an increase in operating expense due to the continued impact of inflation. Due to these expectations, the Management Board reduced part of the estimated operating income and increased part of the estimated operating expense in periods 2025-2027, which resulted in impairment of its investments in this subsidiary and an impairment of goodwill of Erste Card Club d.o.o. in consolidated financial statements in the amount of HRK 125 million in 2022 (2021: 48 million). For segment information in accordance with IFRS 8, information is dislosed in Note 1 Segment reporting.

The following table shows the sensitivity analysis of the recoverable value dependent of investment in Erste Card Club d.o.o. for 2022 and 2021 on the main variables (terminal growth rate and terminal cost of equity):

2022	Risk free rate		
TV growth rate	14.04%	14.54%	15.04%
1.8%	1.406	1.396	1.388
2.3%	1.406	1.396	1.387
2.8%	1.406	1.396	1.386

2021	Risk free rate		
TV growth rate	11.40%	11.90%	12.40%
1.8%	1,408	1,391	1,375
2.3%	1,413	1,395	1,379
2.8%	1,420	1,400	1,383

Amount by which recoverable amount is less than carrying amount in 2022 for Erste Card Club d.o.o. is HRK 125 million which resulted in total goodwill impairment.

41. Other assets

Inventory

The repossessed asset is classified as 'other assets' and measured in accordance with the requirements of IAS 2 'Inventories' if the asset is intended for sale in the ordinary course of business. Namely, it is recognized at an acquisition cost equal to its fair value as estimated and documented upon repossession. Upon each subsequent reporting date, it is measured at lower of cost and net realizable value (expected selling price less costs to sell).

Gains or losses resulting from sale are recognised in the statement of profit or loss and presented under the line item 'Other operating result' in the statement of profit or loss, together with costs of sales and other costs incurred in selling the assets.

	GROUP		BANK	
in HRK million	**2021**	**2022**	**2021**	**2022**
Prepayments and accrued income	40	33	24	11
Inventories	280	201	240	169
Value adjustments of inventories	(98)	(87)	(67)	(56)
Sundry assets	102	124	54	53
Other assets	**324**	**271**	**251**	**177**

In the line 'Inventories' the Group holds repossessed assets (collaterals obtained in foreclosure procedures) which the Group has the intention to sell.
In 2022 the impairment of inventories, shown as expense in the reporting period was recognised in amount of HRK 5 million for the Group and HRK 6 million for the Bank (2021: HRK 41 million for the Group and HRK 37 million for the Bank).

Fiduciary assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Group.

Leases

A lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

42. Group as a lessor

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. In the case of a finance lease, the lessor reports a receivable from the lessee under the line item 'Finance lease receivables'. The receivable is equal to the present value of the contractually agreed payments taking into account any residual value. Interest income on the receivable is reported in the statement of profit or loss in the line item 'Other similar income' under 'Net interest income'.

In the case of operating leases, which are leases other than finance leases, the leased asset is reported by the lessor in 'Property and equipment' or in 'Investment properties' and is depreciated in accordance with the principles applicable to the assets involved. Lease income is recognised on a straight-line basis over the lease term in the statement of profit or loss under the line item 'Rental income from investment properties and other operating leases'.

Finance leases

The Group leases movable property to other parties under finance lease arrangements. For the finance lease receivables included in this item, the reconciliation of the gross investment in leases to the present value of the minimum lease payments are as follows:

		GROUP
in HRK million	**2021**	**2022**
Outstanding lease payments	2,780	3,331
Non-guaranteed residual values	-	-
Gross investment	**2,780**	**3,331**
Unrealised financial income	(176)	(267)
Net investment	**2,604**	**3,064**
Present value of non-guaranteed residual values	-	-
Present value of outstanding lease payments	**2,604**	**3,064**

The maturity analysis of lease by residual maturities under IFRS 16:

				GROUP
		2021		**2022**
in HRK million	**Gross investment**	**Present value of outstanding lease payments**	**Gross investment**	**Present value of outstanding lease payments**
< 1 year	976	899	1,089	979
1 – 2 years	699	670	818	775
2 – 3 years	513	484	593	550
3 – 4 years	322	299	424	387
4 – 5 years	189	173	259	230
> 5 years	81	79	148	143
Total	**2,780**	**2,604**	**3,331**	**3,064**

During 2022, Group recognised interest income on finance lease receivables in the amount of HRK 109 million (2021: HRK 100 million).

42. Group as a lessor (continued)

Finance lease receivables

The analysis of the gross carrying amount (GCA) and of related credit loss allowances (CLA) of finance lease receivables per impairment buckets as of 31 December 2022 and 31 December 2021 is provided in the table below:

											GROUP
	GCA					CLA					
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2022											
Central banks	-	-	-	-	-	-	-	-	-	-	-
General governments	20	28	-	-	48	-	-	-	-	-	48
Credit institutions	1	-	-	-	1	-	-	-	-	-	1
Other financial corporations	10	1	-	-	11	-	-	-	-	-	11
Non-financial corporations	1,720	531	52	-	2,303	(6)	(17)	(17)	-	(40)	2,263
Households	610	74	16	-	700	(1)	(2)	(2)	-	(5)	695
Total	**2,361**	**634**	**68**	**-**	**3,063**	**(7)**	**(19)**	**(19)**	**-**	**(45)**	**3,018**

											GROUP
	GCA					CLA					
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2021											
Central banks	-	-	-	-	-	-	-	-	-	-	-
General governments	56	1	-	-	57	-	-	-	-	-	57
Credit institutions	1	-	-	-	1	-	-	-	-	-	1
Other financial corporations	10	1	-	-	11	-	-	-	-	-	11
Non-financial corporations	1,480	455	54	-	1,989	(8)	(21)	(22)	-	(51)	1,938
Households	472	63	11	-	546	(1)	(3)	(3)	-	(7)	539
Total	**2,019**	**520**	**65**	**-**	**2,604**	**(9)**	**(24)**	**(25)**	**-**	**(58)**	**2,546**

For information about development of credit loss allowances refer to Note 32 Development of credit loss allowances, part ‘Finance lease receivables’: Table ‘Movement in credit loss allowances – finance lease receivables’.

During the process of credit risk assessment, the Company applies prudent methods and assessment models in the risk assessment process. To evaluate a portion of the lessees, the Company uses an internally developed system in the form of score cards as well as the Group’s internal system. The internal evaluation system for natural persons and sole traders with single-entry bookkeeping consists of four grades for non-default clients and one grade for default clients. For other clients, the Group’s evaluation system is used that has thirteen grades for non-default clients and one grade for default clients.

For the purpose of simplified presentation of the credit risk exposure, the grades obtained in this way are internally divided into four risk levels: low risk indicates a high probability of collection; moderate risk is when the debtor’s financial situation is stable but there may be a limited negative impact resulting from an undesired economic situation; moderately high risk is when the debtor is vulnerable to negative financial and economic impacts and therefore needs to be monitored and sufficient collateralisation needs to be ensured. High risk relates to the occurrence of a default event.

42. Group as a lessor

Operating leases

Under operating leases, the Group and the Bank has entered into commercial leases on premises, vehicles and equipment.

Maturity analysis of lease payments from operating leases under IFRS 16

		GROUP		BANK
in HRK million	2021	2022	2021	2022
< 1 year	66	64	3	1
1 – 2 years	35	36	2	1
2 – 3 years	23	23	1	1
3 – 4 years	12	12	1	1
4 – 5 years	5	5	1	1
> 5 years	1	1	-	-
Total	**142**	**141**	**8**	**5**

For information about rental income please refer to Note 7 Rental income from investment properties and other operating leases.

43. Group as a lessee

Under IFRS 16, Group as a lessee recognises a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases (less than 12 months) and leases of low-value items.

The right of use asset is initially measured at cost. The cost comprises the amount of initial measurement of the lease liability (including any lease payments made at or before the commencement date), less any lease incentives received, any initial direct costs incurred by the lessee and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset. Subsequently, the right-of-use asset is depreciated to the earlier of the end of its useful life or the end of the lease term. The Group uses the straight-line method of depreciation. The right of use assets are presented as part of 'Property and equipment' in the statement of financial position and depreciation cost as part of the line item 'Depreciation and amortisation' in the statement of profit or loss. The right of use asset is in scope of impairment requirements in IAS 36.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if the rate cannot be readily determined, the lessee's incremental borrowing rate. Lease payments comprise fixed lease payments, variable lease payments that depend on an index or a rate, amounts expected to be payable under a residual value guarantee. Additionally, the exercise price under a purchase option and lease payments in an optional renewal period are considered if the lessee is reasonably certain to exercise the option. Variable lease payments not included in the measurement of the lease liability are recognised as an expense in profit or loss, in the period in which the event or condition that triggers those payments occur. The incremental borrowing rate for movables consists of Euribor as a base rate, adjusted by a surcharge based on the entity's rating, the amount of funds borrowed, the term of the lease and the collateral provided. The determination of the incremental borrowing rate for property leases is based on two components, the market rate and the single property rate. The market rate considers the lease term, creditworthiness and is derived from existing bank data from the lending business. The single property rate represents a surcharge to the market rate based on the quality of the single property.
Subsequently, the carrying amount of the lease liability is increased by interest accrued using the applicable discount rate, reduced by lease payments made and remeasured to reflect any reassessment or lease modification. In the statement of financial position, the lease liabilities are presented in the line item 'Lease liabilities'. Interest expense decreases over the lease term and it is presented as part of 'Other similar expenses' under the line 'Net interest income' in the statement of profit or loss.

The Group primarily rents real estate's such as buildings and land for branches and parking lots. In addition, movables such as IT equipment are rented for business operations.

43. Group as a lessee (continued)

Rights of Use Assets

Right Of Use Assets	GROUP			BANK		
in HRK million	Land and buildings	Office and plant equipment / other fixed assets	Property and equipment	Land and buildings	Office and plant equipment / other fixed assets	Property and equipment
2021						
Carrying amounts	97	2	**99**	88	10	**98**
Additions (+)	29	1	**30**	17	7	**24**
Depreciation (-)	(20)	(1)	**(21)**	(17)	(2)	**(19)**
2022						
Carrying amounts	89	2	**91**	82	9	**91**
Additions (+)	22	2	**24**	13	3	**16**
Depreciation (-)	(20)	-	**(20)**	(17)	(2)	**(19)**

Maturity analysis of lease liabilities based on undiscounted cash flows

in HRK million	2021	GROUP 2022	2021	BANK 2022
< 1 year	17	24	19	27
1 – 5 years	57	50	57	48
> 5 years	31	23	30	23
Total	**105**	**97**	**106**	**98**

During 2022, interest expenses on lease liabilities were recognised in the amount of HRK 2 million for the Group and the Bank (2021: HRK 2 million for the Group and the Bank).

In 2022, expenses in the amount of HRK 330 thousand for the Group and HRK 331 thousand for the Bank relating to short term leases, (2021: HRK 337 thousand for the Group and HRK 382 thousand for the Bank) for which the recognition exemption of IFSR 16 applies, were recognised. In addition, expenses in the amount of HRK 13 million for the Group and HRK 11 million for the Bank relating to leases of low value items, for which the recognition exemption of IFSR 16 applies, were recognized (2021: HRK 13 million for the Group and HRK 10 million for the Bank).

Total cash outflow for leases in 2022 were HRK 32 million for the Group and HRK 38 million for the Bank (2021: HRK 34 million for the Group and HRK 36 million for the Bank).

There are no commitments for future cash outflows which are not reflected in the measurement of lease liabilities for the Group and for the Bank (2021: 1 million HRK for the Group and nil for the Bank). The Group had no restrictions or covenants imposed by leases or sales and lease back transactions as of 31 December 2022 and 31 Decemeber 2021.

Accruals, provisions, contingent liabilities and legal proceedings

44. Other liabilities

in HRK million	GROUP 2021	GROUP 2022	BANK 2021	BANK 2022
Prepayments received from debtors	179	172	149	140
Salaries and bonuses payable	210	241	171	197
Deferred income and accrued fee expenses	76	79	6	10
Payables to State Agency for deposit	8	30	5	27
Sundry liabilities	158	196	107	121
Other liabilities	**631**	**718**	**438**	**495**

Deferred income outstanding at 31 December 2022 includes 'contract liabilities' in accordance with IFRS 15 in amount of HRK 37 million for the Group and HRK 5 million for the Bank (2021: HRK 35 million for the Group and HRK 2 million for the Bank). Revenue recognised in the reporting year 2022 that was included in the contract liability balance at the beginning of the period amounts to HRK 23 million for the Group and HRK nil for the Bank. (2021: HRK 44 million for the Group and nil for the Bank).

The item 'Sundry liabilities' mainly contains outstanding settlement liabilities as well as other liabilities from employee benefits.

45. Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle that obligation and and the amount of the obligation can be estimated reliably.
Provisions for liabilities and charges are maintained at the level that the Group's management considers sufficient for absorption of losses. The management determines the sufficiency of provisions on the basis of insight into specific items, current economic circumstances, risk characteristics of certain transaction categories, as well as other relevant factors.
In the statement of financial position, provisions are presented under the line 'Provisions'. They include credit risk loss provisions for financial guarantees and loan commitments given as well as provisions for litigation and restructuring. Expenses or income related to provisions for loan commitments and financial guarantees under IFRS 9 requirements are presented in the statement of profit or loss under the line item 'Impairment result from financial instruments'. Expenses or income related to other provisions are presented in the statement of profit or loss under the line item 'Other operating result'.

Significant accounting judgements, assumptions and estimates

Recognition of provisions requires judgement with respect to whether Group has a present obligation as a result of a past event and whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Furthermore, estimates are necessary with respect to the amount and timing of future cash flows when determining the amount of provisions. Further details on provisions for off-balance credit risk exposures are explained in Note 29 Credit risk exposure and Note 32 Development of credit loss allowances.

Following classes of provision can be distinguished:

in HRK million	GROUP 2021	GROUP 2022	BANK 2021	BANK 2022
Long-term employee provisions	17	17	12	12
Pending legal issues	224	398	214	322
Provision for commitments and guarantees given	168	258	158	248
Other provision	-	1	-	-
Provisions	**409**	**674**	**384**	**582**

45. Provisions (continued)

Long-term employee benefits

Long-term employee benefits are all benefits given by the Group in exchange for services rendered by employees which become due in more than 12 months from the period of services rendered to which they relate.

Obligations for defined retirement benefit and jubilees are recognised in the amount of net present value determined by using the Projected Unit Credit Method, with actuarial valuations being carried out at each statement of financial position date.
Actuarial gains or losses in respect of pension benefit provisions are recognized in full in the period in which they occur. Remeasurement of actuarial gains or losses related to pension benefits are recognised in other comprehensive income and the amounts of remeasurements accumulated in other comprehensive income are not reclassified to profit or loss
Actuarial gains or losses in provisions for jubilee benefits are recognised in the statement of profit or loss in the period in which they occur. Remeasurement of jubilee defined-benefit plans are recognised in the statement of profit or loss and presented under the line item 'Personnel expenses'.

			GROUP
in HRK million	Pensions	Jubilee payments	Total
Present value of long-term employee benefit obligations, 31 December 2020	**6**	**10**	**16**
Service cost	-	1	1
Interest cost	-	-	-
Payments	-	(1)	(1)
Actuarial gains/losses recognised in income	-	1	1
Adjustments in financial assumptions	-	1	1
Present value of long-term employee benefit obligations, 31 December 2021	**6**	**11**	**17**
Service cost	-	1	1
Interest cost	-	-	-
Payments	-	(1)	(1)
Actuarial gains/losses recognised in income	-	-	-
Adjustments in financial assumptions	-	-	-
Present value of long-term employee benefit obligations, 31 December 2022	**6**	**11**	**17**

			BANK
in HRK million	Pensions	Jubilee payments	Total
Present value of long-term employee benefit obligations, 31 December 2020	**3**	**8**	**11**
Service cost	-	1	1
Interest cost	-	-	-
Payments	-	(1)	(1)
Actuarial gains/losses recognised in income	-	1	1
Adjustments in financial assumptions	-	1	1
Present value of long-term employee benefit obligations, 31 December 2021	**3**	**9**	**12**
Service cost	-	-	-
Interest cost	-	-	-
Payments	-	(1)	(1)
Actuarial gains/losses recognised in income	-	1	1
Adjustments in financial assumptions	-	-	-
Present value of long-term employee benefit obligations, 31 December 2022	**3**	**9**	**12**

45. Provisions (continued)

Actuarial assumptions

The actuarial calculation of pension obligations and jubilee provisions is based on the following assumptions:

in %	2021	2022
Interest rate	1.35	1.35
Expected increase in retirement benefits	7.11	7.23

The expected retirement age for each employee was individually calculated on the basis of their current age and average of retirement age, which is for men 61 and for women 60.
Obligations were calculated in accordance with the mortality tables entitled Life tables for the Republic of Croatia 2010-2012 Issued by Croatian Bureau of Statistics.

Sensitivity to Key Assumption

The following table presents how the reasonably possible changes of individual parameters effect post-employment benefit obligations as of year-end 2022.

in HRK million	Pensions	Jubilee payments	Total
Change in discount rate + 1.0%	2	9	11
Change in discount rate - 1.0%	3	10	13

Impact on Cash Flows

The following table reflects the benefits expected to be paid by the defined benefit plans in each of the respective periods:

in HRK million	Pensions	Jubilee payments	Total
2023	1	1	2
2024	-	1	1
2025	-	1	1
2026	-	1	1
2027	-	1	1
2028 - 2032	-	1	1

Duration

The following table presents the weighted average duration of the defined-benefit obligations as of year-end 2022:

in years	Pensions	Jubilee payments	Total
Duration	16.29	9.85	13.07

Loan commitments and financial guarantees given in scope of IFRS 9

In the ordinary course of business, the Group provides guarantees consisting of various types of letters of credit and guarantees. A financial guarantee is a contract that requires the guarantor to make specified payments to reimburse the holder for a loss it incurs in case a specified debtor fails to make a payment when due in accordance with the original or modified terms of a debt instrument. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees contracts issued transfer primarily credit risk.

The Group as a guarantor recognises financial guarantees as soon as it becomes a contracting party. Guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. The fee is received over the life of the guarantee given, in arrears, on a quarterly basis and recognised in the statement of profit or loss, in the line item ‘Fee and commission income’ under ‘Net fee and commission income’.

45. Provisions (continued)

The Group has the contractual right to revert to its customer for recovering amounts paid to settle the guarantee. Such amounts will be recognised as a financial asset upon transfer of the loss compensation to the guarantee's beneficiary.
Subsequent to initial recognition, provisions are recognised based on the expected credit loss impairment model and reported in the statement of financial position under the line item 'Provisions'.

Loan commitments are firm commitments to provide credit under prespecified terms and conditions. Loan commitments are generally not recognised in the balance sheet before they are drawn. If it is probable that the bank will enter into the loan agreement loan commitment fees received are deferred and adjust the effective interest rate of the loan when the commitment is drawn. Loan commitments result in recognition of provisions based on the expected credit loss impairment model.

For information about development of credit loss allowances for provision for financial guarantees and loan commitments refer to Note 32 Development of credit loss allowances, part 'Loan commitments and financial guarantees': table 'Movement in credit loss allowances – loan commitments and financial guarantees.

Remaining classes of provisions

Following table provides the information about the development of the remaining classes of provisions

						GROUP
in HRK million	**2021**	**Allocations**	**Use**	**Releases**	**Exchange rate**	**2022**
Pending legal issues	224	243	(16)	(53)	-	398
Other provision	-	1	-	-	-	1
Total	**224**	**244**	**(16)**	**(53)**	**-**	**399**

						BANK
in HRK million	**2021**	**Allocations**	**Use**	**Releases**	**Exchange rate**	**2022**
Pending legal issues	214	178	(17)	(53)	-	322
Other provision	-	-	-	-	-	-
Total	**214**	**178**	**(17)**	**(53)**	**-**	**322**

						GROUP
in HRK million	**2020**	**Allocations**	**Use**	**Releases**	**Exchange rate**	**2021**
Pending legal issues	416	101	(108)	(184)	(1)	224
Other provision	-	-	-	-	-	-
Total	**416**	**101**	**(108)**	**(184)**	**(1)**	**224**

						BANK
in HRK million	**2020**	**Allocations**	**Use**	**Releases**	**Exchange rate**	**2021**
Pending legal issues	403	100	(106)	(182)	(1)	214
Other provision	-	-	-	-	-	-
Total	**403**	**100**	**(106)**	**(182)**	**(1)**	**214**

In Croatia, the Supreme Court, in a proceeding initiated by a local consumer protection association against several credit institutions ('Collective Case'), among them Erste Bank Croatia ('EBC'), declared in 2015 that Swiss Franc (CHF) clauses in loan agreements with consumers are valid, but contractual provisions permitting unilateral change of the variable interest rates in CHF denominated consumer loans, used by the majority of credit institutions from 2004 until 2008, are null and void. In 2016, the Croatian Constitutional Court rescinded the part of the Supreme Court of Croatia decision relating to the validity of CHF clauses. After the case had been returned for a retrial with respect to the CHF clause to the court of second instance, such court delivered its decision in 2018, declaring in essence the nullification of the CHF currency clause, holding that collective and individual consumer rights were breached. However, no specific obligation of the bank was ordered by the verdict. In 2019 the Supreme Court rejected the appeal of the credit Institutions against the 2018 decision. As the subsequent constitutional claim against such decision was rejected by the Constitutional Court in 2021, EBC filed a request to the European Court of Human Rights ("ECHR"), which was declared as inadmissible at the end of 2022.

45. Provisions (continued)

The impact of the rulings in the Collective case on legal disputes with individual clients related to CHF denominated loan agreements is still difficult to predict. In December 2022, the Supreme Court (after a procedure before the European court of Justice regarding the interpretation of relevant provisions of EU's Directive 93/13) reached a legal standing according to which clients who have converted their loans according to the applicable laws enacted in 2015 are entitled to default interest for overpaid amounts taken into account by a credit institution when converting CHF loans into EURO loans.

Apart from the fact, that a consumer protection association – disagreeing with the Supreme Court's reasoning in the Legal Standing, publicly declared their willingness to pursue further actions before the Constitutional Court the ultimate effects of the aforementioned legal standing as well as court practices in individual cases are difficult to predict.

Further information on disclosed disputes are not being provided following IAS 37.92, in order to protect the position of the Group in pending court cases.

During 2022, a first instance verdict was reached against the Defendant, one of the Bank's subsidiary company. This non-final verdict ordered the Defendant to pay the Claimant a significant money amount, together with the default interest and the litigation costs. The Defendant filed an appeal against the part of the verdict, which largely accepted the claim and made a provision in the total amount of HRK 64 mil for the potential liability that may arise in the event of failure in the appeal procedure.

The Group has followed the guidance of IAS 37: Provisions, Contingent Liabilities and Contingent Assets and recognized the provision for expected expense.

46. Contingent liabilities

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised in the Statement of Financial Position, they do involve credit risk and are therefore part of the overall risk of the Group and the Bank (see Note 28 Credit risk review and monitoring and Note 32 Development of Credit loss allowances).

The Group is involved in legal disputes, most of which have arisen in the course of ordinary banking business. These proceedings are not expected to have a significant negative impact on the financial position or profitability of the Group.
Any possible financial impacts of these proceedings are not disclosed, as neither the duration nor the outcome can be reliably estimated and to avoid influencing the outcome of the various proceedings.

Capital instruments, equity and reserves

47. Total equity

Share capital

As of 31 December 2022 and 2021 the share capital of the Bank comprises of 16,984,175 ordinary fully paid shares with a par value of HRK 100 per share. All the ordinary shares are ranked equally and bear one vote.

Capital reserves and share premium

The Bank's distributable and non-distributable reserves are determined by regulations of the CNB. As of 31 December 2022 and 2021 the legal reserves of the Bank disclose non-distributable reserves in amount of HRK 85 million.
Share premium as of 31 December 2022 and 2021 amounted to HRK 1,801 million.

Dividends

The dividends for 2022 are subject to approval by shareholders at Annual General Assembly which has not been held as of the date when these consolidated financial statements were authorized for issue.

As a consequence of the COVID-19 crisis, the European Central Bank as well as local national bank issued recommendations to restrict dividend payouts. As a result, no dividends were paid out by the Bank for 2019 and in May 2021 the Bank held its regular General Meeting at which Net profit for the year 2020 was distributed in the retained earnings. As the Decision on the abolition of the Decision on the temporary restriction of distributions was adopted, at extraordinary General Meeting held on November 2, 2021, Decision on distribution of retained earnings, was made. By the Decision on distribution of retained earnings, the amount of HRK 161,009,979.00 was distributed as the dividend to the Bank's shareholders. The dividend is determined in amount of 9.48 % of the nominal share value, which makes HRK 9.48 per share.

The dividend for the year 2021 in the amount of HRK 524,980,849.25 was distributed to the shareholders, in amount of 30.91 % of the nominal share value, which is HRK 30.91 per share

Scope of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (subsidiaries) together with the Group's share in associates.

Merger and disposal in 2022

Merger under common control of S Leasing d.o.o. Podgorica

Company S Leasing d.o.o. Podgorica has been merged with Erste bank AD Podgorica as of 12th December 2022.
Erste bank AD Podgorica is an entity that has survived the merger. This is a business combination transaction under common controls as all merging companies are businesses in the meaning of IFRS 3, are controlled by the same party and the control is not transitory. No consideration transferred for this merger as the Erste bank AD Podgorica holds 100% interest in subsidiary. The transaction is a business combination under common control and was accounted for using a predecessor value method). The carrying amounts of assets and liabilities of S Leasing d.o.o. Podgorica. from the consolidated financial statements of the Group were used to account for this transaction. The difference between carrying amount of the investment in subsidiary (recognised before the merger at cost in the separate FS of the surviving entity) and the carrying amount of the net assets of the acquired company is recognised in equity (in Retained earnings).
The merger was accounted for prospectively from the date of the transaction. The comparatives are not restated thus the comparatives present only the assets, liabilities, income, expenses of the acquirer; whereas assets, liabilities, income, expenses of acquiree (of S Leasing d.o.o. Podgorica) are incorporated only from the date of the merger which is 12th December 2022.

Effects of merger recognized at the merger date:

in HRK million	12 December 2022
Cash and cash balances	34
Property and equipment	3
Other asset	1
Finance lease receivables	123
Trade and other receivables	3
Financial liabilities measured at amortised cost	(142)
Other liabilities	(2)
Elimination of carrying amount of the investments in subsidiary	(15)
Difference recognised in Equity, incl.: · **Retained earnings**	**5**

Disposal of subsidiary of Erste Card d.o.o. Slovenia

Additional information on disposal of Erste Card d.o.o. Slovenia is displosed in note 53 Assets held for sale and liabilities associated with assets held for sale.

48. Investment in subsidiaries

Subsidiaries are entities over which the Group has control.
All entities directly or indirectly controlled by the Group are consolidated in the Group financial statements on the basis of their annual accounts as of 31 December 2022, and for the year then ended.

Subsidiaries are consolidated from the date on which control is obtained until the date when control is lost. Control is achieved when the Group is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power to direct the relevant activities of the investee. Relevant activities are those which most significantly affect the variable returns of an entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and the consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal.

48. Investment in subsidiaries (continued)

The financial statements of the Bank’s subsidiaries are prepared for the same reporting year as that of the Group and using consistent accounting policies. All intragroup transactions, balances, income and expenses as well as unrealised gains and losses are eliminated on consolidation.

Non-controlling interests represent the portion of total comprehensive income and net assets of subsidiaries that is not attributable, directly or indirectly, to the owners of the Bank. Non-controlling interest is presented separately in the consolidated statement of profit or loss, in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position. Acquisitions of non-controlling interests as well as disposals of non-controlling interests that do not lead to a change of control are accounted for as equity transactions, whereby the difference between the consideration transferred and the share in the carrying amount of the net assets acquired is recognised in equity.

Control

IFRS 10 Consolidated Financial Statements defines the investor’s control over an investee in terms of the investor having all of the following:
- power to direct the relevant activities of the investee, i.e. activities that significantly affect the investee’s returns;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the investor’s returns.

Hence, assessing the existence of control under this definition may require considerable accounting judgements, assumptions and estimates, notably in non-standard situations such as:
- power stemming both from voting rights and from contractual arrangements (or mostly from the latter);
- exposure stemming both from on-balance investments and from off-balance commitments or guarantees (or mostly from the latter); or
- variable returns stemming both from readily identifiable income streams (e.g. dividends, interest, fees) and from cost savings, economies of scale and/or operational synergies (or mostly from the latter).

Following the acquisition of the additional stake in Erste Leasing d.o.o. (the Company) in 2014, the Bank has ownership interest of 50% in the Company. The other 50% interest is held by Steiermarkische Bank und Sparkassen AG, Austria. The Group consolidates the Company based on the assessment of control over its relevant activities as defined by IFRS 10 Consolidated Financial Statements.
The Group has considered the local legislation and the Incorporation Act of the Company and concluded that in accordance with the Incorporation Act the Bank controls the Company. According to the Incorporation Act of the Company the decisions at the shareholders level, requiring unanimous decision-making, are of a protective nature. The decisions over relevant activities are taken by the simple majority of the Supervisory Board members of the Company, where the Bank has the right to appoint the majority of the members, and therefore controls the Company.
Furthermore, the Bank has the ability to use its power over the Company to affect the amount of the investor's returns. The Bank has established frame within which can keep track of The Company's portfolio movement as well as their entire business operations. Close collaboration has been established between sales business lines as well as constant coordination of risk management organisational parts, respectively strategic risk management of the Company has been implemented and strategic management of the entire Company's relevant business aspects.

Business combinations

Businesses combinations are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree.

For business combinations from 1 January 2010, acquisition costs incurred are expensed and included in administrative expenses in the period to which they relate. The Group measures goodwill as the excess of the sum of the consideration transferred, the amount of any non-controlling interests, and the fair value of the previously held equity interest over the net of the acquisition date amounts of the identifiable assets acquired as well as the liabilities assumed. At the acquisition date, the identifiable assets acquired and the liabilities assumed are generally recognised at their fair values.

48. Investment in subsidiaries (continued)

If, after reassessment of all components described above, the calculation results in a negative amount, it is recognised as a gain and presented in the statement of profit or loss under the line item 'Other operating result' in the year of acquisition.

For business combinations prior to 1 January 2010, acquisition costs were included in the cost of business combination and the goodwill represents the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the business combination, the determined amount was recognized in profit or loss in the period of acquisition and presented in the statement of profit or loss under the line 'Other operating result'.

Non-controlling interests which are present ownership interests in the acquiree are measured at the proportionate share of the acquiree's identifiable net assets.

A merger or business combination involving entities or businesses under common control is a business combination in which all of the combining businesses are ultimately controlled by the same party or parties both before and after the merger or business combination, and that control is not transitory.
The predecessor method of accounting is used to account for the mergers and business combinations of entities (businesses) under common control.
Under the predecessor method, the acquirer incorporates the carrying values of assets (including goodwill, if any) and liabilities of the acquired or merged entity (i.e. entity which cease to exist as the result of the merger) from the consolidated financial statements of the highest level parent that has common control for which consolidated financial statements are prepared or the lower level parent company, if justifiable (for example, when the parent company merges with its subsidiary, the carrying amounts from the consolidated financial statements of the merging parent are used to account for the merger).
The acquired or merged entity's results and balance sheet are incorporated prospectively from the date on which the merger or business combination between entities under common control occurred. On the date of the merger, inter-company transactions, balances and unrealised gains and losses on transactions between the two entities merging are eliminated.
The difference between consideration transferred and the carrying amount of the net assets of the acquired company is recognised in equity (in Retained earnings).

Investment in subsidiaries

Subsidiaries	Main business activity	Ownership % held		Group's share of net assets		Investment at cost less impairment	
in HRK million		2021	2022	2021	2022	2021	2022
Erste Nekretnine d.o.o.	Real estate business	100%	100%	8	9	1	1
Erste Card Club d.o.o.	Financial intermediation and services	100%	100%	1,288	1,412	611	486
Izbor Nekretnina d.o.o.	Real estate management and lease	100%	100%	3	4	2	2
Erste Bank AD, Podgorica	Credit institution	100%	100%	754	814	100	100
Erste&Steiermarkische S-leasing d.o.o.	Leasing company	50%	50%	428	415	89	89
Erste Group IT HR d.o.o.	IT engineering	80%	80%	11	13	2	2
Direct control				**2,492**	**2,667**	**805**	**680**
Erste Card d.o.o. Slovenia	Financial intermediation and services	100%	100%	37	0	24	0
Indirect control				**37**	**0**	**24**	**0**
Total subsidiaries:				**2,529**	**2,667**	**829**	**680**

The following subsidiaries have non material Non-Controlling Interest (NCI):
_ Erste & Steiermarkische S-leasing d.o.o. (50%)
_ Erste Group IT HR d.o.o. (20%)

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which the banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios.

49. Investments in associates

Associates are entities over which the Group has significant influence but no control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. As a general rule, IAS 28 indicates that if an entity holds, directly or indirectly 20% or more of the voting power of the investee, it is presumed that the entity has significant influence unless it can be clearly demonstrated that this is not the case.

Investments in associates are accounted for using the equity method of accounting. Under the equity method, interest in an associate is recognised in the consolidated statement of financial position at cost and adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of the individual investment.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized in the statement of profit or loss.

The Group's share of the associate's result is recognised in the consolidated statement of profit or loss in line item 'Net result from equity method investments'. The line item contains result from associates recorded by applying the equity method (measured as investor's share of profit or loss in the associates).
However, impairment losses, reversal of impairment losses and realised gains and losses on investments in associates accounted for using the equity method are reported under the line item 'Other operating result'.

Investment in associates

Associates	Erste d.o.o.	
Country of Incorporation	Croatia	
Place of business	Croatia	
Main business activity	Management company for obligatory and voluntary pension fund	
in HRK million	2021	2022
Ownership % held	45.86%	45.86%
IFRS Classification	Associate	Associate
Reporting currency	HRK	HRK
Dividend income received	5	5
Impairment loss recognized (cumulative basis)	-	-
Impairment loss recognized (for the reporting year)	-	-
Investee's key financial information for the reporting year (as at reporting-year-end)		
Financial assets	114	116
Other assets	19	24
Financial liabilities	0	0
Other liabilities	17	19
Revenue	72	73
Expense	(53)	(56)
Investment at cost	38	38
Reconciliation of investee's net assets against equity investment's carrying amount	24	27
Net assets attributable to the Group	62	65

Other disclosure matters

50. Related-party transactions

When considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Transactions with related parties are done at arm's length. Therefore, the applicable interest rates and other terms (maturity dates and collateral) represent market conditions.

The parent company (which is also the ultimate controlling parent entity of the entire group) is Erste Group Bank AG, Vienna (EGB). Entity with significant influence on the Group is Steiermärkische Bank und Sparkassen AG.
The 'Key management personnel' includes Management Board and Supervisory Board while 'Other' includes close family members of key management personnel.

As at 31 December 2022 and 31 December 2021, balances outstanding with related parties comprised:

ASSET						GROUP
in HRK million	Loans and receivables	Derivatives 2021	Other	Loans and receivables	Derivatives 2022	Other
Entity with significant influence on the Group	-	-	4	-	-	7
Key management personnel	5	-	-	3	-	-
Parent company	43	27	198	50	191	251
Other EGB companies	5	-	8	2	-	12
Other	-	-	-	-	-	-
Associates	-	-	-	-	-	-
Total assets	**53**	**27**	**210**	**55**	**191**	**270**

LIABILITIES						GROUP
in HRK million	Deposits	Derivatives 2021	Other	Deposits	Derivatives 2022	Other
Entity with significant influence on the Group	2,989	-	-	3,318	-	-
Key management personnel	17	-	-	14	-	-
Parent company	4,393	40	76	5,722	3	1
Other EGB companies	180	-	68	159	-	-
Other	-	-	-	1	-	-
Associates	26	-	-	36	-	-
Total liabilities	**7,605**	**40**	**144**	**9,250**	**3**	**1**

ASSET						BANK
in HRK million	Loans and receivables	Derivatives 2021	Other	Loans and receivables	Derivatives 2022	Other
Entity with significant influence on the Group	-	-	-	-	-	-
Key management personnel	3	-	-	3	-	-
Parent company	42	27	77	49	191	141
Other EGB companies	3	-	5	1	-	5
Other	-	-	-	-	-	-
Subsidiaries	144	-	-	93	-	-
Associates	-	-	-	-	-	-
Total assets	**192**	**27**	**82**	**146**	**191**	**146**

50. Related-party transactions (continued)

LIABILITIES						BANK
in HRK million	Deposits	Derivatives 2021	Other	Deposits	Derivatives 2022	Other
Entity with significant influence on the Group	572	-	-	575	-	-
Key management personnel	17	-	-	14	-	-
Parent company	3,775	40	1	5,178	3	-
Other EGB companies	176	-	-	157	-	-
Other	-	-	-	1	-	-
Subsidiaries	136	-	1	187	-	1
Associates	26	-	-	36	-	-
Total liabilities	**4,702**	**40**	**2**	**6,148**	**3**	**1**

STATEMENT OF PROFIT OR LOSS	GROUP		BANK	
in HRK million	2021	2022	2021	2022
Interest income	**19**	**33**	**21**	**32**
Entity with significant influence on the Group	-	-	-	-
Key management personnel	-	-	-	-
Parent company	19	33	19	31
Other EGB companies	-	-	-	-
Subsidiaries	-	-	2	1
Associates	-	-	-	-
Fee income	**27**	**28**	**100**	**133**
Parent company	8	8	6	6
Other EGB companies	16	17	16	15
Subsidiaries	-	-	75	109
Associates	3	3	3	3
Gains and losses from net trading result	**20**	**151**	**20**	**148**
Parent company	20	151	20	151
Subsidiaries	-	-	-	(3)
Other operating income	**28**	**44**	**19**	**21**
Parent company	8	9	5	5
Subsidiaries	-	14	13	15
Other EGB companies	20	21	1	1
Associates	-	-	-	-
Total income	**94**	**256**	**160**	**334**

STATEMENT OF PROFIT OR LOSS	GROUP		BANK	
in HRK million	2021	2022	2021	2022
Interest expense	**127**	**106**	**92**	**67**
Entity with significant influence on the Group	35	41	11	10
Key management personnel	-	-	-	-
Other EGB companies	1	-	-	-
Parent company	91	65	81	57
Subsidiaries	-	-	-	-
Associates	-	-	-	-
Fee expense	**32**	**37**	**35**	**49**
Parent company	6	7	5	7
Other EGB companies	26	30	20	23
Other	-	-	-	-
Subsidiaries	-	-	10	19
Other administrative expenses	**114**	**110**	**154**	**166**
Parent company	31	14	31	13
Other EGB companies	83	96	68	80
Key management personnel	-	-	-	-
Subsidiaries	-	-	55	73
Associates	-	-	-	-
Other operating expenses	**-**	**-**	**-**	**-**
Parent company	-	-	-	-
Total expenses	**273**	**253**	**281**	**282**

Significant related party transactions are related to financial services and IT activities.

50. Related-party transactions (continued)

OFF BALANCE ITEMS in HRK million	GROUP		BANK	
	2021	2022	2021	2022
Guarantees issued	**20**	**16**	**20**	**16**
Parent company	20	16	20	16
Other EGB companies	-	-	-	-
Other	-	-	-	-
Subsidiaries	-	-	-	-
Undrawn credit and loan commitments	**2**	**1**	**150**	**176**
Key management personnel	1	-	-	-
Other EGB companies	1	1	-	-
Subsidiaries	-	-	150	176
Associates	-	-	-	-
Total commitments and contingent liabilities	**22**	**17**	**170**	**192**

Borrowings from parent company as of 31 December 2022, were HRK 2,016 million for the Group (2021: HRK 919 million) and HRK 1,473 million for the Bank (2021: HRK 226 million).

As of 31 December 2022, the Group has had no cash deposit as collateral within Amounts due to banks from the parent company (2021: nil).

The remuneration of key management personnel were as follows:

in HRK million	GROUP		BANK	
	2021	2022	2021	2022
Management Board				
Wages and salaries	35	31	12	14
of which contributions to pension fund	5	3	1	1
Bonuses	34	20	25	12
Total remuneration	**69**	**51**	**37**	**26**

51. Share-based payments

Phantom Share Program

On yearly basis, however subject to a separate yearly annual approval process each year, the Group grants a bonus to selected employees (variable remuneration component) for services rendered during the year (performance year). The payment is only made if the regulatory requirements in respect of financial result and capital requirements (RAS indicators) are met, both for Erste Group Bank AG and the Group. If the individual bonus exceeds a certain limit, the final payment amount of at least 50% of the individual bonus determined at the end of the performance year depends on the development of the average, volume-weighted daily price of Erste Group Bank AG shares in subsequent years ("Phantom Share Program").

The corresponding portion of the individual bonus is converted into share equivalents (phantom shares) using the average, volume-weighted, daily share price of Erste Group Bank AG during the performance year. The share equivalents are divided into several tranches, which differ based on the development of the Erste Group Bank AG share price during the vesting period. At the end of the respective vesting period, the amount that will be paid out in the following year is determined from the corresponding number of share equivalents and the average price. The vesting period corresponds to the performance year. Part of the bonus converted into share equivalents (phantom shares) is paid out in a year following the vesting period, while the remaining part is paid out in equal tranches over the next five years (retention period).

The Phantom Share Program meets the criteria for share-based payment with cash settlement in accordance with IFRS 2.

51. Share-based payments (continued)

Since the Group receives the entire work service in the respective performance year, the estimated amount of the variable remuneration for stock equivalents is recognized as a liability at fair value. The final determination of the calculated and allocated share equivalents takes place in the following year. The liability for share equivalents, that have not yet been paid out, is continuously measured at fair value, up to the cap limit. until it is paid out. Changes in fair value up to the final allocation in subsequent years are recognized in profit or loss. To determine the fair value, the number of share equivalents not yet paid out on the balance sheet date, is multiplied by the estimated average price of Erste Group Bank AG share for the respective year of payment. The estimated average share prices for the respective payment year are determined using an Option pricing model (Black-Scholes model). The main parameters are the share price of the Erste Group Bank AG share on the balance sheet date and the expected dividend payments up to the date of payment. As of 31 December 2022, the valuation of the liability is based on the average weighted daily share price of Erste Group Bank AG of the year 2022 in the amount of EUR 29.01 (2021: EUR 33.08) per share.
It is expected that 46,206 share equivalents with a fair value of HRK 11 million will be granted to eligible employees for the Group and 34,474 share equivalents with a fair value of HRK 8 million will be granted to eligible employees for the Bank (2021: 43,045 share equivalents with a fair value of HRK 12 million for the Group and 34,208 share share equivalents with a fair value of HRK 10 million for the Bank).
The total expense recorded for the Phantom Share Program in the reporting period amounts to HRK 8 million for the Group and HRK 2 million for the Bank (2021: HRK 12 million for the Group and HRK 10 million for the Bank), the book value of the liability as of the balance sheet date is HRK 32 million for the Group and HRK 25 million for the Bank (2021: HRK 30 million for the Group and HRK 23 million for the Bank).

We Share Program

The WeShareParticipation program and WeShare-Investment Plus program are cash-settled share-based payment transactions based on the fact that that the payment is settled by the Group using Erste Group Bank AG equity instruments, not own shares. Both programs are offered to employees of the Group provided that the specific requirements are met.
Under the WeShare-Investment Plus part program all employees, who had been employed by an entity of the Group, from April 2022 until September 2022 could voluntarily invest in Erste Group shares and receive free shares depending on the amount of their personal investment. The WeShare-Investment Plus program was settled in September 2022. The number of free shares, which were granted under this program for the period, is 40,980. Personnel expenses in the amount of HRK 7 million were recorded.

Under the WeShare-Participation program all employees, who have been employed by an entity of the Group for at least six months in year 2022 and are still employed until the transfer of the shares to the employees in 2023 are entitled to receive shares in an equivalent amount of EUR 350. The expected number of free shares granted under this program for the period, is 48,250 for the Group and for 37,126 for the Bank (2021: 33,308 for the Group and 25,322 for the Bank). Based on the number of entitled employees, personnel expenses in the amount of HRK 5 million for the Group and HRK 4 million for the Bank (2021: HRK 15 million for the Group and HRK 12 million for the Bank) were recorded. In the statement of financial position, liability is presented in the line item ‚Other liabilities'.

52. Audit fees and tax consultancy fees

The following table contains fundamental audit fees by the auditors in the financial years 2022 and 2021:

	GROUP		BANK	
in HRK million	**2021**	**2022**	**2021**	**2022**
Audit fees	4	4	3	3
Other services	1	-	-	-
Total	**5**	**4**	**3**	**3**

In the period from 1 January 2022 to 31 December 2022 the auditors provided two permissible non-audit services to the Bank. They are consultat services for annual update of the documentation related to Multi Issuer Program and Retail programe and assurance for contribution to SRF. Total fee for provided non-audit services is not material.

53. Assets held for sale and liabilities associated with assets held for sale

Non-current assets are classified as held for sale if they can be sold in their present condition and the sale is highly probable within 12 months from the date of classification as held for sale. If assets are to be sold as part of a group that may also contain liabilities (e.g. a subsidiary), they are referred to as a disposal group held for sale.

Assets classified as held for sale and assets belonging to the disposal group held for sale are reported under the balance sheet line item 'Assets held for sale'. Liabilities belonging to the disposal group held for sale are presented on the balance sheet under the line item 'Liabilities associated with assets held for sale'.

Non-current assets and disposal groups that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. The carrying amount of assets and liabilities that are not within the scope of the measurement requirements of IFRS 5 are measured in accordance with the applicable IFRSs before the fair value of less costs to sell of the disposal group is measured. Accordingly, financial assets and financial liabilities included in the disposal group are measured at amortised cost in accordance with IFRS 9.

Property, plant and intangible assets are not depreciated or amortised once classified as held for sale. Assets held for sale related to property, are measured at fair value on non-recurring basis when their carrying amount is impaired down to fair value less costs to sell. The fair values are determined by experts with recognised and relevant professional qualification.

	GROUP		BANK	
in HRK million	2021	2022	2021	2022
Assets held for sale	336	4	3	-
Liabilities associated with assets held for sale	261	-	-	-

As of the end 2022, line 'Assets held for sale' includes property, and as of the end of 2021, it mainly included disposal group (Erste Card d.o.o,. Slovenia) in amount of HRK 333 million (2021: HRK 333 million) for the Group.

As of end 2022, there is no Assets held for sale for the Bank and as of end 2021, it included property.

Disposal group held for sale (ERSTE CARD d.o.o., Slovenia)

Due to strategic guidelines of Erste Card Club d.o.o. and focus on the market in Republic of Croatia the activities regarding the sale of its fully owned subsidiary – Erste Card d.o.o., Slovenia was initiated. In October 2021 Erste Card Club d.o.o. signed an agreement for the sale of Erste Card d.o.o., Slovenia to Banka Sparkasse d.d. Slovenia, a related party.

The agreed selling price amounts to approximately HRK 67.7 million (9 EUR million at the EUR/HRK exchange rate of 7,517174 from 31 December 2021). Due to the procedural aspects of obtaining formal approval of the transaction by the supervising authorities in Austria and Slovenia, its closure date is expected by the end of the 2nd quarter of 2022.

Having met the qualifying criteria of IFRS 5, Erste Card d.o.o., Slovenia is presented in Group consolidated financial statements for the financial year ending 31 December 2021 as a disposal group held for sale and reported under the balance sheet line items 'Assets held for sale' and 'Liabilities associated with assets held for sale'. In accordance with the presentation requirements of IFRS 5, the assets and liabilities of Erste Card d.o.o., Slovenia are neither reclassified nor represented in the statements of financial position of prior years.

As Erste Card d.o.o., Slovenia does not fulfil any of the criteria stipulated in IFRS 5.32, it is not classified as 'discontinued operation'.

The disposal group is measured at the consolidated level according to IFRS 5 at carrying amount. As the selling contract had been signed before the end of 2021, the best indication for fair value of the disposal group is the agreed transaction price. The agreed price of approximately HRK 67.7 million (EUR 9 million) has been found higher than the net equity of Erste Card d.o.o., Slovenia in the amount of HRK 37 million as of 31 December 2021.
The disposal group is disclosed in segment reporting as ALM&LLC.

53. Assets held for sale and liabilities associated with assets held for sale (continued)

The carrying amounts of major classes of assets and liabilities of Erste Card d.o.o., Slovenia as of 31 December 2021 are as follow:

in HRK million	2021
Assets	
Cash and cash balances	1
Financial assets at amortised cost	207
Property and equipment	10
Intangible assets	3
Tax assets	3
Trade and other receivables	105
Other assets	4
Total assets	**333**
Liabilities	
Financial liabilities measured at amortised cost	257
Finance lease liabilities	8
Provisions	5
Tax liabilities	1
Other liabilities	25
Total liabilities	**296**

The agreed transaction price is subject to pre-closing price adjustments. It is expected that operating business performance of Erste Card d.o.o., Slovenia in the period from 1 January 2022 until the closing of the transaction will not lead to any deductions from the agreed transaction price, and thus no further material adjustments to the carrying amount of the disposal group are expected. Moreover, there is no uncertainty as to the ability of the buyer to pay the purchase price.
Other comprehensive income includes in total HRK 121 thousand of cumulative expenses relating to Erste Card d.o.o., Slovenia, comprising HRK 86 thousand negative currency translation reserve and HRK 35 thousand negative actuarial loss on defined pension plans.

Effect of disposal

Until the date of disposal Erste Card d.o.o., Slovenia had contributed HRK 1 million of gain for the year to the Group. These figures are consolidated within Group retained earnings.

in HRK million	24 June 2022
Carrying amounts of net assets over which control was lost	
Total assets	351
Total liabilities	(312)
Net assets derecognised	**39**
Consideration received	**68**
Gain on disposal	
Consideration received	68
Net assets derecognised	(39)
Gain on disposal	**29**
Cash inflow on disposal of the subsidiary	
Cash and cash equivalents disposed of	(5)
Cash consideration received	68
Net cash inflow arising on disposal	**63**

54. Analysis of remaining maturities

Expected cash flows are broken down by contractual maturities in accordance with the amortization schedule and arranged in maturity ranges less than 1 year and more than 1 year. The following table shows the contractual maturities as of 31 December 2022 and 31 December 2021.

				GROUP
in HRK million	2021		2022	
	< 1 year	> 1 year	< 1 year	> 1 year
Cash and cash balances	14,530	-	25,982	-
Financial assets HfT	113	32	22	175
Derivatives	38	32	18	175
Other financial assets held for trading	75	-	4	-
Non-trading financial assets at FVPL	29	46	22	38
Equity instruments	-	10	-	21
Debt securities	29	36	22	17
Financial assets at FVOCI	2,020	9,927	2,246	6,921
Equity instruments	-	4	-	4
Debt securities	2,020	9,923	2,246	6,917
Financial assets at AC	17,347	41,981	16,645	54,404
Debt securities	151	4,784	654	9,370
Loans and advances to banks	4,312	94	2,796	94
Loans and advances to customers	12,884	37,103	13,195	44,940
Finance lease receivables	876	1,670	965	2,053
Trade and other receivables	1,268	2	1,297	-
Property, plant and equipment	-	1,179	-	1,166
Investment properties	-	3	-	9
Intangible assets	-	327	-	171
Investments in associates	-	62	-	65
Current tax assets	-	-	7	-
Deferred tax assets	-	207	-	404
Assets held for sale	336	-	4	-
Other assets	120	204	131	140
TOTAL ASSETS	**36,639**	**55,640**	**47,321**	**65,546**
Financial liabilities HfT	34	22	18	157
Derivatives	34	22	18	157
Financial liabilities measured at amortised cost	65,568	13,991	88,740	11,209
Deposits from banks	2,181	4,352	7,004	4,213
Deposits from customers	62,264	6,004	80,549	3,649
Debt securities issued	376	3,634	300	3,346
Other financial liabilities	747	1	887	1
Finance lease liabilities	22	77	26	65
Provisions	330	79	455	219
Tax liabilities	92	2	251	-
Liabilities associated with assets held for sale	261	-	-	-
Other liabilities	599	32	682	36
TOTAL LIABILITIES	**66,906**	**14,203**	**90,172**	**11,686**

54. Analysis of remaining maturities (continued)

				BANK
in HRK million	2021		2022	
	< 1 year	> 1 year	< 1 year	> 1 year
Cash and cash balances	13,518	-	24,632	-
Financial assets HfT	113	32	23	174
Derivatives	38	32	19	174
Other financial assets held for trading	75	-	4	-
Non-trading financial assets at FVPL	24	46	22	36
Equity instruments	-	10	-	19
Debt securities	24	36	22	17
Financial assets at FVOCI	2,013	9,435	2,240	6,547
Equity instruments	-	4	-	4
Debt securities	2,013	9,431	2,240	6,543
Financial assets at AC	15,350	39,369	14,314	51,563
Debt securities	151	4,523	654	9,067
Loans and advances to banks	4,228	94	2,504	94
Loans and advances to customers	10,971	34,752	11,156	42,402
Trade and other receivables	692	-	879	-
Property, plant and equipment	-	792	-	802
Investment properties	-	-	-	-
Intangible assets	-	135	-	112
Investments in subsidiaries	-	805	-	680
Investments in associates	-	38	-	38
Current tax assets	-	-	-	-
Deferred tax assets	-	132	-	338
Assets held for sale	3	-	-	-
Other assets	63	188	45	132
TOTAL ASSETS	**31,776**	**50,972**	**42,155**	**60,422**
Financial liabilities HfT	34	22	18	157
Derivatives	34	22	18	157
Financial liabilities measured at amortised cost	60,950	11,428	83,315	8,695
Deposits from banks	1,017	2,225	5,531	2,126
Deposits from customers	59,358	5,569	77,190	3,223
Debt securities issued	376	3,634	300	3,346
Other financial liabilities	199	-	294	-
Finance lease liabilities	18	82	27	66
Provisions	320	64	444	138
Tax liabilities	74	-	230	-
Other liabilities	405	33	460	35
TOTAL LIABILITIES	**61,801**	**11,629**	**84,494**	**9,091**

55.Events after balance sheet date

On January 1, 2023, euro becomes the official currency and legal tender in the Republic of Croatia. The fixed conversion rate is set at HRK 7.534500 for one euro. The introduction of the euro as the official currency in the Republic of Croatia represents a change in the functional currency that will be calculated prospectively and does not represent an event after the balance sheet date that requires the reconciliation of the amounts in these financial statements.

56. Country-by-country reporting

Country	Operating income	Pre-tax result from continuing operations	Income tax	Employees
2022				GROUP
Croatia	3,115	1,433	(357)	3,003
Montenegro	243	110	(14)	317
Slovenia	-	-	-	-
Total	**3,358**	**1,543**	**(371)**	**3,320**

Country	Operating income	Pre-tax result from continuing operations	Income tax	Employees[2]
2021				GROUP
Croatia	2,835	1,219	(221)	2,857
Montenegro	220	66	(5)	303
Slovenia	59	12	(2)	61
Total	**3,114**	**1,297**	**(228)**	**3,221**

[2] The expressed figure is the total number of active employees, taking into account whether they work full-tome or part time.

Own funds and capital requirements

57. Own funds and capital requirements

Regulatory Requirements

Since 1 January 2014, the Group has been calculating the regulatory own funds and the regulatory capital requirements according to the Capital Requirements Regulation (CRR, Regulation (EU) No. 575/2013) and the Capital Requirement Directive (CRD IV, Directive (EU) 2013/36/EU)[3]. Both the CRD IV and CRD V were enacted in national law in Croatian Credit Institutions Act (ZOKI), as well as within various technical standards issued by the European Banking Authority (EBA).

All requirements as defined in the CRR, ZOKI and the aforementioned technical standards are fully applied by the Group for regulatory purposes and for the disclosure of regulatory information.

Furthermore, the Group also fulfils capital requirements determined in the Supervisory Review and Evaluation Process (SREP).

Accounting Principles

The financial and regulatory figures published by the Group are based on IFRS. Eligible capital components derived from the Statement of financial position and Statement of profit or loss which were prepared in accordance with IFRS. Adjustments to the accounting figures are considered due to the different definitions in the scope of consolidation and for items where the regulatory treatment is not equal to the accounting requirements.
The uniform closing date of the consolidated financial statements and consolidated regulatory figures of the Group is the 31 December of each respective year.

Regulatory scope of consolidation

The definition of entities to be consolidated for regulatory purposes are mainly defined in Articles 4 (1) (3) and (16) to (27) CRR in line with the Articles 18 and 19 CRR. Based on the relevant sections in Article 4 CRR, entities to be consolidated are determined based on the business activity of the relevant entities.
Moreover, Art. 18 (7) CRR applies: Where an institution has a subsidiary which is an undertaking other than an institution, a financial institution or an ancillary service undertaking or holds a participation in such an undertaking, it shall apply to that subsidiary or participation the equity method. That method shall not, however, constitute inclusion of the undertakings concerned in supervision on a consolidated basis.
The definition pursuant to CRR differs from the scope of consolidation according to IFRS, which also includes insurance companies and other entities, that are subject to full consolidation.

[3] Both CRD IV and CRR have been amended since the entry into force in 2014 inter alia with Directive (EU) 2019/878 (CRD V) as well as regu-lations (EU) 2019/876 (CRR 2) and (EU) 2020/873 (CRR Quick Fix).

57. Own funds and capital requirements (continued)

Own funds

Own funds according to CRR consists of Common equity Tier 1 (CET 1), Additional Tier 1 capital (AT 1) and Tier 2 capital (T2). According to article 92 CRR credit institutions are required to fulfil following requirements; CET 1 capital ratio in amount of 4.5%, Tier 1 capital ratio in amount of 6% and total capital ratio in amount of 8%.

Capital buffer requirements are set out in section VII of the Credit institutions Act (ZOKI). Capital conservation buffer, countercyclical buffer, Globally Systemic Important Institutions buffer, Other Systemic Important Institutions and Systemic risk buffer are further specified in Credit Institutions Act section VII. All capital buffers have to be met entirely with CET1 capital. The sum of all CRD buffers applicable to a Bank is defined as the 'Combined Buffer Requirement' (CBR).

Article 117 of ZOKI requires that the Group and the Bank cover capital conservation buffer in amount of 2.5%. Besides capital conservation buffer the Group and the Bank have to establish systemic risk buffer in amount 1,5% in accordance with articles 129, 130, 131 and Other Systemic Important Institution (O-SII) buffer in the amount of 2% in accordance with articles 137, 138 and 139 of ZOKI.

In addition to minimum capital ratios and capital buffer requirements, institutions also have to fulfil capital requirements determined in the Supervisory Review and Evaluation Process (SREP). The Bank applies a Pillar 2 requirement (P2R) of 1.75% as of 01. March 2022. Capital quantitative requirement has to be held in the minimum form of 56.25% of Common Equity Tier 1 capital and 75% of Tier 1 capital. The Pillar 2 Guidance (P2G) for the Bank is determined on a sub-consolidated and on an individual level as 1% of total risk exposure amount as of 01. March 2022.

Overview of capital requirements and capital buffers

	Dec 21	Dec 22
Pillar 1		
Minimum CET 1 requirement	4.50%	4.50%
Minimum Tier 1 requirement	6.00%	6.00%
Minimum Own Funds requirement	8.00%	8.00%
Combined buffer requirement (CBR)	**6.00%**	**6.00%**
Capital conservation buffer	2.50%	2.50%
Countercyclical capital buffer	0.00%	0.00%
Systemic risk buffer	1.50%	1.50%
O-SII capital buffer	2.00%	2.00%
Minimum CET 1 requirement (incl.CBR)	10.50%	10.50%
Minimum Tier 1 requirement (incl.CBR)	12.00%	12.00%
Minimum Own Funds requirement (incl.CBR)	14.00%	14.00%
Pillar 2	**2.90%**	**1.75%**
Minimum CET1 requirement	1.62%	0.98%
Minimum T1 requirement	2.18%	1.31%
Minimum Own Funds requirement	2.90%	1.75%
Total CET 1 requirement for Pillar 1 and Pillar 2	**12.12%**	**11.48%**
Total Tier 1 requirement for Pillar 1 and Pillar 2	**14.18%**	**13.31%**
Total Capital requirement for Pillar 1 and Pillar 2	**16.90%**	**15.75%**

57. Own funds and capital requirements (continued)

Capital structure according to the EU regulation 575/2013 (CRR)

		GROUP		BANK	
in HRK million	**Article pursuant to CRR**	**2021**	**2022**	**2021**	**2022**
Common equity tier 1 capital (CET1)					
Capital instruments eligible as CET1	26(1)(a)(b), 27-30, 36(1)(f), 42	3,499	3,499	3,499	3,499
Retained earnings	26(1)(c), 26(2)	6,689	7,280	5,067	5,455
Accumulated other comprehensive income	4(1)(100), 26(1)(d)	139	(673)	142	(635)
Other reserves		85	85	85	85
Common equity tier 1 capital (CET1) before regulatory adjustments		**10,412**	**10,191**	**8,793**	**8,404**
Own CET1 instruments	36(1)(f), 42	-	-	-	-
Prudential filter: fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	33(1)(c), 33(2)	(2)	(9)	(2)	(9)
Value adjustments due to the requirements for prudent valuation	34, 105	(14)	(25)	(14)	(24)
Goodwill	4(1)(113), 36(1)(b), 37	(125)	-	-	-
Other intangible assets	4(1)(115), 36(1)(b), 37(a)	(139)	(80)	(98)	(53)
DTA that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	36(1)(c), 38	-	-	-	-
IRB shortfall of credit risk adjustments to expected losses	36(1)(d), 40, 158, 159	-	-	-	-
Insufficient coverage for non-performing exposures		(11)	(13)	(10)	(10)
CET1 capital elements or deductions – other		-	-	-	-
Additional deductions of CET1 Capital due to Article 3 CRR		(68)	(65)	(61)	(62)
Common equity tier 1 capital (CET1)	**50**	**10,053**	**9,999**	**8,608**	**8,246**
Additional tier 1 capital (AT1)	**61**	**-**	**-**	**-**	**-**
Tier 1 capital = CET1 + AT1	**25**	**10,053**	**9,999**	**8,608**	**8,246**
Tier 2 capital (T2)					
Capital instruments and subordinated loans eligible as T2	62(a), 63-65, 66(a), 67	133	88	133	88
IRB excess of provisions over expected losses eligible	62(d)	242	213	251	222
Tier 2 capital (T2)	**71**	**375**	**301**	**384**	**310**
Total own funds	**4(1)(118) and 72**	**10,428**	**10,300**	**8,992**	**8,556**
Capital requirement	**92(3), 95, 96, 98**	**4,509**	**4,216**	**3,883**	**3,520**
CET1 capital ratio	**92(2)(a)**	**17.8%**	**19.0%**	**17.7%**	**18.7%**
Tier 1 capital ratio	**92(2)(b)**	**17.8%**	**19.0%**	**17.7%**	**18.7%**
Total capital ratio	**92(2)(c)**	**18.5%**	**19.5%**	**18.5%**	**19.4%**

Risk structure according to EU regulation 575/2013 (CRR)

GROUP	2021		2022	
in HRK million	**Total risk (final)**	**Capital requirement (final)**	**Total risk (final)**	**Capital requirement (final)**
Total risk exposure amount	56,368	4,509	52,704	4,216
Risk-weighted assets (credit risk)	50,915	4,073	46,193	3,695
Standardised approach	10,655	852	10,710	857
IRB approach	40,260	3,221	35,483	2,839
Trading book, foreign FX risk and commodity risk	97	8	1,037	83
Operational risk	5,324	426	5,447	436
Exposure for CVA	32	3	27	2

57. Own funds and capital requirements (continued)

Risk structure according to EU regulation 575/2013 (CRR) (continued)

BANK in HRK million	2021 Total risk (final)	2021 Capital requirement (final)	2022 Total risk (final)	2022 Capital requirement (final)
Total risk exposure amount	48,540	3,883	44,000	3,520
Risk-weighted assets (credit risk)	44,462	3,557	39,379	3,150
Standardised approach	2,535	203	2,374	190
IRB approach	41,927	3,354	37,005	2,960
Trading book, foreign FX risk and commodity risk	48	4	448	36
Operational risk	3,998	320	4,146	332
Exposure for CVA	32	2	27	2

The Group fulfilled the capital requirements in 2022. In accordance with Art. 26 (2) CRR the item retained earnings includes the eligible profits of HRK 585.3 million (the Bank HRK 389.3 million) approved by the European Central Bank by decision of 06 February 2023.

The position CET1 elements or deduction – Others include development of unaudited risk provisions during the year (EU No 183/2014) and insufficient coverage for non-performing exposures (NPE Backstop) covering the requirements from both Art. 36 para 1 (m) CRR in connection with Art. 47(c) CRR and the Addendum to the ECB Guidance to banks on non-performing loans: supervisory expectations for prudential provisioning of non-performing exposures.

The capital structure table above is based on the Commission Implementing Regulation (EU) No 2021/637 laying down implementing technical standards regarding to disclosure of own funds requirements. Positions, which are not relevant for Group are not disclosed. Figures shown under full implementation of Basel 3 considered the current CRR.

At the end of 2022 total risk-weighted assets for credit risk at Bank level amounted HRK 39,379 million, which is a decrease by HRK 5,083 million compared to previous year. The decrease was mainly caused by adoption of permanent partial use of the Standardized Approach for exposures to central governments and central banks as well as multilateral development banks treated as Sovereign. However, it was partially offset by significant business increase, largely related with business lines *SME, Large Corporates, Real Estate* and *Privates*.
At local Group level, credit RWA decreased by HRK 4,722 million. Due to decrease of Bank's RWA, share of subsidiaries in total Group credit RWA recorded mild increase.

The Group uses the standardised approach for the purposes of the calculating the capital requirements for market risk. The risk primarily arises from derivative transactions (FX Swap, FX Forward and Interest Rate Swap) with clients and capital requirements for currency risk based on the calculation of the total net foreign exchange position. Standardised approach for counterparty credit risk (SA-CCR) according to CRR II Art. 274 -280 is used to manage credit risk from derivatives.

The Bank is using the standardized approach (”TSA”) for the capital requirement calculation, according to CRR, as well as the Group Members Erste Card Club d.o.o. and Erste&Steiermärkische S-Leasing d.o.o., while other members apply Basic indicator approach (“BIA“). The Bank provides the operational risk capital requirement in such a way that it is constantly adequate to the type, range and complexity of its services as well as to its operational risk exposure or possible exposure within its scope of services.

Forms according to local requirements

Pursuant to the Decision of the CNB on structure and content of Bank's annual financial statements (Official Gazette 42/2018, 122/2020, 119/2021 and 108/2022) below we present the required forms for the Group and the Bank for the year ended 31 December 2022 in the form required by the decision. Information about the basis of presentation as well as a summary of accounting policies are given in the notes to the financial statements. Information important for better understanding of certain positions of the statement of financial position, statement of profit or loss, changes in equity as well as cash flow statement are also included in the notes.

Differences between forms (appendix 1) presented below on pages 235 to 244 and primary financial statements are presented in appendix 2 titled Differences between financial statements according to IFRS and local requirements.

Income statement			**GROUP**
In HRK million		**2021**	**2022**
1.	Interest income	2,262	2,359
2.	(Interest expenses)	259	238
3.	(Expenses on share capital repayable on demand)	-	-
4.	Dividend income	1	-
5.	Fees and commissions income	1,068	1,199
6.	(Fees and commissions expenses)	259	315
7.	Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	-	1
8.	Gains or (-) losses on financial assets and liabilities held for trading, net	226	228
9.	Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	4	(12)
10.	Gains or (-) losses on derecognition of financial assets and liabilities at fair value through profit or loss, net	-	-
11.	Gains or (-) losses from hedge accounting	-	-
12.	Exchange rate differences [gain or (-) loss], net	(5)	70
13.	Gains or (-) losses on derecognition of investments in subsidiaries, joint ventures and associates, net	-	-
14.	Gains or (-) losses on derecognition of non-financial assets, net	17	21
15.	Other operating income	119	77
16.	(Other operating expenses)	47	40
17.	**Total operating income, net (1 – 2 – 3 + 4 + 5 – 6 + from 7 to 15 – 16)**	**3,127**	**3,350**
18.	(Administrative expenses)	1,378	1,504
19.	(Cash contributions to resolution boards and deposit guarantee schemes)	35	92
20.	(Depreciation)	250	246
21.	Modification gains or (-) losses, net	(1)	-
22.	(Provisions or (-) reversal of provisions)	82	404
23.	(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	6	(531)
24.	(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	-	-
25.	(Impairment or (-) reversal of impairment on non-financial assets)	87	130
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	9	8
28.	Profit or (-) loss from fixed assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	30
29.	**Profit or (-) loss before tax from continuing operations (17 – from 18 to 20 + 21- from 22 to 25 + from 26 to 28)**	**1,297**	**1,543**
30.	(Tax expense or (-) income related to profit or loss from continuing operations)	228	371
31.	**Profit or (-) loss after tax from continuing operations (29 – 30)**	**1,069**	**1,172**
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)**	**1,069**	**1,172**
36.	Attributable to minority interest [non-controlling interests]	19	(4)
37.	Attributable to owners of the parent	1,050	1,176
STATEMENT OF OTHER COMPREHENSIVE INCOME			
38.	Income or (-) loss for the current year	1,069	1,172
39.	**Other comprehensive income (40+ 52)**	**(121)**	**(813)**
40.	**Items that will not be reclassified to profit or loss (from 41 to 47) + 50 + 51)**	**8**	**1**
41.	Tangible assets	-	-
42.	Intangible assets	-	-
43.	Actuarial gains or (-) losses on defined benefit pension plans	-	1
44.	Fixed assets and disposal groups classified as held for sale	-	-
45.	Share of other recognised income and expense of entities accounted for using the equity method	-	-
46.	Fair value changes of equity instruments measured at fair value through other comprehensive income	9	-
47.	Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-
48.	Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-
49.	Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-
50.	Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-

Income statement			GROUP
In HRK million		2021	2022
51.	Income tax relating to items that will not be reclassified	(1)	-
52.	**Items that may be reclassified to profit or loss (from 53 to 60)**	**(129)**	**(814)**
53.	Hedge of net investments in foreign operations [effective portion]	-	-
54.	Foreign currency translation	(2)	2
55.	Cash flow hedges [effective portion]	-	-
56.	Hedging instruments [not designated elements]	-	-
57.	Debt instruments at fair value through other comprehensive income	(153)	(994)
58.	Fixed assets and disposal groups classified as held for sale	-	-
59.	Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	-	-
60.	Income tax relating to items that may be reclassified to profit or (-) loss	26	178
61.	**Total comprehensive income for the current year (38 + 39; 62 + 63)**	**948**	**359**
62.	Attributable to minority interest [non-controlling interest]	19	(4)
63.	Attributable to owners of the parent	929	363

Income statement			BANK
In HRK million		**2021**	**2022**
1.	Interest income	1,821	1,935
2.	(Interest expenses)	209	188
3.	(Expenses on share capital repayable on demand)	-	-
4.	Dividend income	11	47
5.	Fees and commissions income	713	860
6.	(Fees and commissions expenses)	194	262
7.	Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	-	1
8.	Gains or (-) losses on financial assets and liabilities held for trading, net	223	222
9.	Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	6	(13)
10.	Gains or (-) losses on derecognition of financial assets and liabilities at fair value through profit or loss, net	-	-
11.	Gains or (-) losses from hedge accounting	-	-
12.	Exchange rate differences [gain or (-) loss], net	(5)	87
13.	Gains or (-) losses on derecognition of investments in subsidiaries, joint ventures and associates, net		
14.	Gains or (-) losses on derecognition of non-financial assets, net	12	15
15.	Other operating income	31	29
16.	(Other operating expenses)	23	23
17.	**Total operating income, net (1 – 2 – 3 + 4 + 5 – 6 + from 7 to 15 – 16)**	**2,386**	**2,710**
18.	(Administrative expenses)	1,034	1,176
19.	(Cash contributions to resolution boards and deposit guarantee schemes)	26	79
20.	(Depreciation)	143	154
21.	Modification gains or (-) losses, net	(1)	-
22.	(Provisions or (-) reversal of provisions)	90	339
23.	(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	(25)	(463)
24.	(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	48	125
25.	(Impairment or (-) reversal of impairment on non-financial assets)	37	6
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 fixed 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 – from 18 to 20 + 21- from 22 to 25 + from 26 to 28)**	**1,032**	**1,295**
30.	(Tax expense or (-) income related to profit or loss from continuing operations)	185	318
31.	**Profit or (-) loss after tax from continuing operations (29 – 30)**	**847**	**977**
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)**	**847**	**977**
36.	Attributable to minority interest [non-controlling interests]	-	-
37.	Attributable to owners of the parent	847	977
STATEMENT OF OTHER COMPREHENSIVE INCOME		**-**	**-**
38.	Income or (-) loss for the current year	847	977
39.	**Other comprehensive income (40+ 52)**	**(105)**	**(778)**
40.	**Items that will not be reclassified to profit or loss (from 41 to 47) + 50 + 51)**	**6**	**1**
41.	Tangible assets	-	-
42.	Intangible assets	-	-
43.	Actuarial gains or (-) losses on defined benefit pension plans	-	1
44.	Fixed assets and disposal groups classified as held for sale	-	-
45.	Share of other recognised income and expense of entities accounted for using the equity method	-	-
46.	Fair value changes of equity instruments measured at fair value through other comprehensive income	7	-
47.	Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-
48.	Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-
49.	Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-
50.	Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-
51.	Income tax relating to items that will not be reclassified	(1)	-
52.	**Items that may be reclassified to profit or loss (from 53 to 60)**	**(111)**	**(779)**
53.	Hedge of net investments in foreign operations [effective portion]	-	-
54.	Foreign currency translation	-	-
55.	Cash flow hedges [effective portion]	-	-
56.	Hedging instruments [not designated elements]	-	-
57.	Debt instruments at fair value through other comprehensive income	(135)	(950)
58.	Fixed assets and disposal groups classified as held for sale	-	-
59.	Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	-	-
60.	Income tax relating to items that may be reclassified to profit or (-) loss	24	171
61.	**Total comprehensive income for the current year (38 + 39; 62 + 63)**	**742**	**199**
62.	Attributable to minority interest [non-controlling interest]	-	-
63.	Attributable to owners of the parent	742	199

Statement of financial position

	In HRK million		GROUP
		2021	2022
	ASSETS		
1.	**Cash, cash balances and liabilities at central banks and other demand deposits (from 2 to 4)**	**14,530**	**25,982**
2.	Cash on hand	3,052	3,135
3.	Cash balances and liabilities at central banks	11,036	22,177
4.	Other demand deposits	442	670
5.	**Financial assets held for trading (from 6 to 9)**	**145**	**197**
6.	Derivatives	70	193
7.	Equity instruments	-	-
8.	Debt securities	75	4
9.	Loans and advances	-	-
10.	**Non-trading financial assets mandatorily at fair value through profit or loss (from 11 to 13)**	**75**	**60**
11.	Equity instruments	39	43
12.	Debt securities	36	17
13.	Loans and advances	-	-
14.	**Financial assets designated at fair value through profit or loss (15 + 16)**	**-**	**-**
15.	Debt securities	-	-
16.	Loans and advances	-	-
17.	**Financial assets at fair value through other comprehensive income (from 18 to 20)**	**11,947**	**9,167**
18.	Equity instruments	4	4
19.	Debt securities	11,943	9,163
20.	Loans and advances	-	-
21.	**Financial assets at amortised cost (22 + 23)**	**63,144**	**75,364**
22.	Debt securities	4,935	10,024
23.	Loans and advances	58,209	65,340
24.	Derivatives – Hedge accounting	-	-
25.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
26.	Investments in subsidiaries, joint ventures and associates	62	65
27.	Tangible assets	1,182	1,175
28.	Intangible assets	327	171
29.	Tax assets	207	411
30.	Other assets	324	271
31.	Fixed assets and disposal groups classified as held for sale	336	4
32.	**TOTAL ASSEST (1+5+10+14+17+21+ from 24 to 31)**	**92,279**	**112,867**
	LIABILITIES		
33.	**Financial liabilities held for trading (from 34 to 38)**	**56**	**175**
34.	Derivatives	56	175
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 measured at amortised cost (from 44 to 46)**	**79,658**	**100,040**
44.	Deposits	74,801	95,415
45.	Debt securities issued	4,010	3,646
46.	Other financial liabilities	847	979
47.	Derivatives – Hedge accounting	-	-
48.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
49.	Provisions	409	674
50.	Tax liabilities	94	251
51.	Share capital repayable on demand	-	-
52.	Other liabilities	631	718
53.	Liabilities included in disposal groups classified as held for sale	261	-
54.	**TOTAL LIABILITIES (33+39+43+ from 47 to 53)**	**81,109**	**101,858**
	EQUITY	**0**	**-**
55.	Initial capital	1,698	1,698
56.	Share premium	1,801	1,801
57.	Equity instruments issued other than capital	-	-
58.	Other equity instruments	-	-
59.	Accumulated other comprehensive income	139	(673)
60.	Retained profit	6,181	6,711
61.	Revaluation reserves	-	-
62.	Other reserves	85	85
63.	Treasury shares	-	-
64.	Profit or loss attributable to owners of the parent	1,050	1,176
65.	Interim dividends	-	-
66.	Minority interests [Non-controlling interests]	216	211
67.	**TOTAL EQUITY (from 55 to 66)**	**11,170**	**11,009**
68.	**TOTAL LIABILITIES AND EQUITY (54+67)**	**92,279**	**112,867**

Statement of financial position			BANK
In HRK million		2021	2022
	ASSETS		
1.	**Cash, cash balances and liabilities at central banks and other demand deposits (from 2 to 4)**	**13,518**	**24,632**
2.	Cash on hand	2,831	2,792
3.	Cash balances and liabilities at central banks	10,577	21,661
4.	Other demand deposits	110	179
5.	**Financial assets held for trading (from 6 to 9)**	**145**	**197**
6.	Derivatives	70	193
7.	Equity instruments	-	-
8.	Debt securities	75	4
9.	Loans and advances	-	-
10.	**Non-trading financial assets mandatorily at fair value through profit or loss (from 11 to 13)**	**70**	**58**
11.	Equity instruments	34	41
12.	Debt securities	36	17
13.	Loans and advances	-	-
14.	**Financial assets designated at fair value through profit or loss (15 + 16)**	**-**	**-**
15.	Debt securities	-	-
16.	Loans and advances	-	-
17.	**Financial assets at fair value through other comprehensive income (from 18 to 20)**	**11,448**	**8,787**
18.	Equity instruments	4	4
19.	Debt securities	11,444	8,783
20.	Loans and advances	-	-
21.	**Financial assets at amortised cost (22 + 23)**	**55,411**	**66,756**
22.	Debt securities	4,674	9,721
23.	Loans and advances	50,737	57,035
24.	Derivatives – Hedge accounting	-	-
25.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
26.	Investments in subsidiaries, joint ventures and associates	843	718
27.	Tangible assets	792	802
28.	Intangible assets	135	112
29.	Tax assets	132	338
30.	Other assets	251	177
31.	Fixed assets and disposal groups classified as held for sale	3	-
32.	**TOTAL ASSEST (1+5+10+14+17+21+ from 24 to 31)**	**82,748**	**102,577**
	LIABILITIES		
33.	**Financial liabilities held for trading (from 34 to 38)**	**56**	**175**
34.	Derivatives	56	175
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 measured at amortised cost (from 44 to 46)**	**72,478**	**92,103**
44.	Deposits	68,169	88,070
45.	Debt securities issued	4,010	3,646
46.	Other financial liabilities	299	387
47.	Derivatives – Hedge accounting	-	-
48.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
49.	Provisions	384	582
50.	Tax liabilities	74	230
51.	Share capital repayable on demand	-	-
52.	Other liabilities	438	495
53.	Liabilities included in disposal groups classified as held for sale	-	-
54.	**TOTAL LIABILITIES (33+39+43+ from 47 to 53)**	**73,430**	**93,585**
	EQUITY		
55.	Initial capital	1,698	1,698
56.	Share premium	1,801	1,801
57.	Equity instruments issued other than capital	-	-
58.	Other equity instruments	-	-
59.	Accumulated other comprehensive income	142	(635)
60.	Retained profit	4,745	5,066
61.	Revaluation reserves	-	-
62.	Other reserves	85	85
63.	Treasury shares	-	-
64.	Profit or loss attributable to owners of the parent	847	977
65.	Interim dividends	-	-
66.	Minority interests [Non-controlling interests]	-	-
67.	**TOTAL EQUITY (from 55 to 66)**	**9,318**	**8,992**
68.	**TOTAL LIABILITIES AND EQUITY (54+67)**	**82,748**	**102,577**

Statement of changes in equity

In HRK million														GROUP
	Attributable to owners of the parent											Non-controlling interests		
	Equity	Share premium	Equity instruments issued other than capital	Other equity instru-ments	Accumulated other comprehensive income	Retained profit	Revaluation reserves	Other reserves	Treasury shares	Profit or loss attributable to owners of the parent	Interim dividends	Accumulated other comprehensive income	Other items	Total
Opening balance [before restatement]	**1,698**	**1,801**	**-**	**-**	**139**	**6,181**	**-**	**85**	**-**	**1,050**	**-**	**-**	**216**	**11,170**
Effects of error corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effect of changes in accounting policies	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Opening balance (current period) (1 + 2 + 3)	**1,698**	**1,801**	**-**	**-**	**139**	**6,181**	**-**	**85**	**-**	**1,050**	**-**	**-**	**216**	**11,170**
Ordinary shares issue	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Preference shares issue	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issue of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Dividends	-	-	-	-	-	(525)	-	-	-	-	-	-	(1)	(526)
Purchase/sale of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity instruments	**-**	**-**	**-**	**-**	**-**	**1,050**	**-**	**-**	**-**	**(1,050)**	**-**	**-**	**-**	**-**
Share based payments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
Other increase or (-) decrease of equity instruments	**-**	**-**	**-**	**-**	**1**	**5**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6**
Total comprehensive income for the current year	**-**	**-**	**-**	**-**	**(813)**	**-**	**-**	**-**	**-**	**1,176**	**-**	**-**	**(4)**	**359**
Equity instruments increase or (-) decrease resulting from business combinations	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Closing balance [current period] (from 4 to 20)	**1,698**	**1,801**	**-**	**-**	**(673)**	**6,711**	**-**	**85**	**-**	**1,176**	**-**	**-**	**211**	**11,009**

Statement of changes in equity

In HRK million **BANK**

	Attributable to owners of the parent											Non-controlling interests		
	Equity	Share premium	Equity instruments issued other than capital	Other equity instru-ments	Accumulated other comprehensive income	Retained profit	Revaluation reserves	Other reserves	Treasury shares	Profit or loss attributable to owners of the parent	Interim dividends	Accumulated other comprehensive income	Other items	Total
Opening balance [before restatement]	1,698	1,801	-	-	142	4,745	-	85	-	847	-	-	-	9,318
Effects of error corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effect of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance (current period) (1 + 2 + 3)	1,698	1,801	-	-	142	4,745	-	85	-	847	-	-	-	9,318
Ordinary shares issue	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Preference shares issue	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issue of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	(525)	-	-	-	-	-	-	-	(525)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury share	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity instruments	-	-	-	-	-	847	-	-	-	(847)	-	-	-	-
Share-based Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease of equity instruments	-	-	-	-	1	(1)	-	-	-	-	-	-	-	-
Total comprehensive income for the current year	-	-	-	-	(778)	-	-	-	-	977	-	-	-	199
Equity instruments increase or (-) decrease resulting from business combination	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance [current period] (from 4 to 20)	1,698	1,801	-	-	(635)	5,066	-	85	-	977	-	-	-	8,992

Cash flow statements			GROUP
	In HRK million	**2021**	**2022**
	Operating activities – direct method		
1.	Interest received and similar receipts	-	-
2.	Fees and commissions received	-	-
3.	(Interest paid and similar expenditures)	-	-
4.	(Fees and commissions paid)	-	-
5.	(Operating expenses paid)	-	-
6.	Net gains/losses from financial instruments at fair value through statement of profit or loss	-	-
7.	Other receipts	-	-
8.	(Other expenditures)	-	-
	Operating activities – indirect method		
9.	Profit/(loss) before tax	1,297	1,543
	Adjustments:	-	-
10.	Impairment and provisions	145	15
11.	Depreciation	249	247
12.	Net unrealised (gains)/losses on financial assets and liabilities at fair value through statement of profit or loss	-	-
13.	(Profit)/loss from the sale of tangible assets	3	-
14.	Other non-cash items	1	(23)
	Changes in assets and liabilities from operating activities		
15.	Deposits with the Croatian National Bank	601	(3,795)
16.	Deposits with financial institutions and loans to financial institutions	(764)	5,200
17.	Loans and advances to other clients	(2,758)	(9,846)
18.	Securities and other financial instruments at fair value through other comprehensive income	(1,095)	1,635
19.	Securities and other financial instruments held for trading	(32)	71
20.	Securities and other financial instruments at fair value through statement of profit or loss, not traded	244	14
21.	Securities and other financial instruments at fair value through statement of profit or loss	-	-
22.	Securities and other financial instruments at amortised cost	(2,586)	(5,144)
23.	Other assets from operating activities	89	(87)
24.	Deposits from financial institutions	(24)	39
25.	Transaction accounts of other clients	9,109	14,293
26.	Savings deposits of other clients	898	2,419
27.	Time deposits of other clients	(1,044)	(727)
28.	Derivative financial liabilities and other traded liabilities	(52)	115
29.	Other liabilities from operating activities	211	4,358
30.	Interest received from operating activities [indirect method]	2,224	2,268
31.	Dividends received from operating activities [indirect method]	7	-
32.	Interest paid from operating activities [indirect method]	(274)	(253)
33.	(Income tax paid)	(32)	(239)
34.	**Net cash flow from operating activities (from 1 to 33)**	**6,417**	**12,103**
	Investing activities		
35.	Cash receipts from the sale / payments for the purchase of tangible and intangible assets	(174)	(186)
36.	Cash receipts from the sale / payments for the purchase of investments in branches, associates and joint ventures	-	87
37.	Cash receipts from the sale / payments for the purchase of securities and other financial instruments held to maturity	-	-
38.	Dividends received from investing activities	-	-
39.	Other receipts/payments from investing activities	-	-
40.	**Net cash flow from investing activities (from 35 to 39)**	**(174)**	**(99)**
	Financing activities		
41.	Net increase/(decrease) in loans received from financing activities	-	-
42.	Net increase/(decrease) of debt securities issued	-	-
43.	Net increase/(decrease) of Tier 2 capital instruments	-	-
44.	Increase of share capital	-	-
45.	(Dividends paid)	(162)	(527)
46.	Other receipts/(payments) from financing activities	(19)	(25)
47.	**Net cash flow from financing activities (from 41 to 46)**	**(181)**	**(552)**
48.	**Net increase/(decrease) of cash and cash equivalents (34 + 40 + 47)**	**6,062**	**11,452**
49.	**Cash and cash equivalents at the beginning of period**	**8,468**	**14,530**
50.	Effect of exchange rate fluctuations on cash and cash equivalents	-	-
51.	**Cash and cash equivalents at the end of period (48 + 49 + 50)**	**14,530**	**25,982**

Cash flow statements			BANK
	In HRK million	**2021**	**2022**
	Operating activities – direct method		
1.	Interest received and similar receipts	-	-
2.	Fees and commissions received	-	-
3.	(Interest paid and similar expenditures)	-	-
4.	(Fees and commissions paid)	-	-
5.	(Operating expenses paid)	-	-
6.	Net gains/losses from financial instruments at fair value through statement of profit or loss	-	-
7.	Other receipts	-	-
8.	(Other expenditures)	-	-
	Operating activities – indirect method		
9.	Profit/(loss) before tax	1,032	1,295
	Adjustments:	-	-
10.	Impairment and provisions	154	932
11.	Depreciation	143	152
12.	Net unrealised (gains)/losses on financial assets and liabilities at fair value through statement of profit or loss	-	-
13.	(Profit)/loss from the sale of tangible assets	(3)	(5)
14.	Other non-cash items	6	7
	Changes in assets and liabilities from operating activities		
15.	Deposits with the Croatian National Bank	601	(3,795)
16.	Deposits with financial institutions and loans to financial institutions	(750)	5,518
17.	Loans and advances to other clients	(2,307)	(10,144)
18.	Securities and other financial instruments at fair value through other comprehensive income	(1,132)	1,580
19.	Securities and other financial instruments held for trading	(32)	71
20.	Securities and other financial instruments at fair value through statement of profit or loss, not traded	114	11
21.	Securities and other financial instruments at fair value through statement of profit or loss	-	-
22.	Securities and other financial instruments at amortised cost	(2,502)	(5,091)
23.	Other assets from operating activities	72	(54)
24.	Deposits from financial institutions	(39)	198
25.	Transaction accounts of other clients	8,625	13,851
26.	Savings deposits of other clients	894	2,416
27.	Time deposits of other clients	(1,009)	(682)
28.	Derivative financial liabilities and other traded liabilities	(52)	115
29.	Other liabilities from operating activities	567	3,902
30.	Interest received from operating activities [indirect method]	1,879	1,902
31.	Dividends received from operating activities [indirect method]	7	-
32.	Interest paid from operating activities [indirect method]	(222)	(191)
33.	(Income tax paid)	(18)	(197)
34.	**Net cash flow from operating activities (from 1 to 33)**	**6,028**	**11,792**
	Investing activities		
35.	Cash receipts from the sale / payments for the purchase of tangible and intangible assets	(108)	(125)
36.	Cash receipts from the sale / payments for the purchase of investments in branches, associates and joint ventures	38	-
37.	Cash receipts from the sale / payments for the purchase of securities and other financial instruments held to maturity	-	-
38.	Dividends received from investing activities	-	-
39.	Other receipts/payments from investing activities	-	-
40.	**Net cash flow from investing activities (from 35 to 39)**	**(70)**	**(125)**
	Financing activities		
41.	Net increase/(decrease) in loans received from financing activities	-	-
42.	Net increase/(decrease) of debt securities issued	-	-
43.	Net increase/(decrease) of Tier 2 capital instruments	-	-
44.	Increase of share capital	-	-
45.	(Dividends paid)	(161)	(525)
46.	Other receipts/(payments) from financing activities	(21)	(28)
47.	**Net cash flow from financing activities (from 41 to 46)**	**(182)**	**(553)**
48.	**Net increase/(decrease) of cash and cash equivalents (34 + 40 + 47)**	**5,776**	**11,114**
49.	**Cash and cash equivalents at the beginning of period**	**7,742**	**13,518**
50.	Effect of exchange rate fluctuations on cash and cash equivalents	-	-
51.	**Cash and cash equivalents at the end of period (48 + 49 + 50)**	**13,518**	**24,632**

	Off balance sheet items		GROUP
		2021	2022
1.	Guarantees	4,679	5,207
2.	Letters of credit	181	232
3.	Bills of exchange	-	-
4.	Undrawn loans and loan commitments	6,162	8,747
5.	Other risk off balance items	73	79
6.	Futures	-	-
7.	Options	-	-
8.	Swaps	7,208	3,564
9.	Forwards	1,917	1,780
10.	Other derivatives	-	-

	Off balance sheet items		BANK
		2021	2022
1.	Guarantees	4,159	4,769
2.	Letters of credit	181	232
3.	Bills of exchange	-	-
4.	Undrawn loans and loan commitments	4,884	7,422
5.	Other risk off balance items	73	79
6.	Futures	-	-
7.	Options	-	-
8.	Swaps	7,208	3,564
9.	Forwards	1,917	1,780
10.	Other derivatives	-	-

GROUP

Annual report (AR)	in HRK million	Statement of financial position (CNB)	in HRK million	Diff.	Explanation
Cash and cash balances	25,982	Cash on hand, Cash balances at Central bank and Other demand deposits	25,982	-	-
Financial assets held for trading	197	Financial assets held for trading	197	-	-
Non-trading financial assets at fair value through profit or loss – Equity instruments	21	Non-trading financial assets at fair value through profit or loss- Equity instruments	43	(22)	AR – Non-trading financial assets at fair value through profit or loss- Debt securities
Non-trading financial assets at fair value through profit or loss – Debt securities	39	Non-trading financial assets at fair value through profit or loss- Debt securities	17	22	CNB- Equity instruments
Financial assets at fair value through other comprehensive income	9,167	Financial assets at fair value through other comprehensive income	9,167	-	-
Financial assets at amortised cost – Loans and advances	61,025	Financial assets at amortised cost- Loans and advances	65,340	-	-
Trade and other receivables	1,297				
Finance lease receivables	3,018				
Financial assets at amortised cost – Debt securities	10,024	Financial assets at amortised cost- Debt securities	10,024	-	-
Investments in subsidiaries	-	Investments in associates, subsidiaries and joint ventures	65	-	-
Investments in associates	65				
Property and equipment	1,166	Tangible assets	1,175	-	-
Investment property	9				
Intangible assets	171	Intangible assets	171	-	-
Deferred tax assets	411	Tax assets	411	-	-
Other assets	271	Other assets	271	-	-
Assets held for sale	4	Non-current assets and disposal groups classified as held for sale	4	-	-
TOTAL ASSETS	**112,867**	**TOTAL ASSETS**	**112,867**	-	-

GROUP

Annual report (AR)	in HRK million	Statement of financial position (CNB)	in HRK million	Diff.	Explanation
Financial liabilities held for trading- Derivatives	175	Financial liabilities held for trading- Derivatives	175	-	-
Financial liabilities measured at amortised cost- Deposits	95,415	Financial liabilities measured at amortised cost- Deposits	95,415	-	-
Debt securities in issue	3,646	Debt securities in issue	3,646	-	-
Other financial liabilities	888				
Finance lease liabilities	91	Other financial liabilities	979	-	-
Provisions	674	Provisions	674	-	-
Tax liabilities	251	Tax liabilities	251	-	-
Other liabilities	718	Other liabilities	718	-	-
Total equity	11,009	Total equity	11,009	-	-
TOTAL LIABILITIES AND EQUITY	**112,867**	**TOTAL LIABILITIES AND EQUITY**	**112,867**	**-**	**-**

					GROUP
Annual report (AR)	**in HRK million**	**Income statement (CNB)**	**in HRK million**	**Diff.**	**Explanation**
Interest income	2,175				
Other similar income	184	Interest income	2,359	-	-
Interest expense	(170)				
Other similar expense	(68)	Interest expense	(238)	-	-
Fee and commission income	1,199	Fees and commissions income	1,199	-	-
Fee and commission expense	(315)	Fees and commissions expenses	(315)	-	-
Net trading result	298	Gains or losses on financial assets and financial liabilities held for trading, net	228	-	-
		Exchange differences [gain or loss], net	70		
Personnel expenses	(860)	Administrative expenses	(1,504)	2	CNB- Other operating expense
Other administrative expenses	(699)	Depreciation	(246)	35	AR- Other operating result
Depreciation and amortisation	(246)	Cash contributions to resolution boards and deposit guarantee schemes	(92)		-
Other operating result	(329)	Gains or losses from derecognition of non-financial assets, net	21		
Rental income from investment properties & other operating leases	59	Other operating income	77		
Net impairment loss on financial instruments	318	Other operating expense	(40)		
Gains/losses from derecognition of financial assets measured at amortised cost	-	Provisions or cancellation of provisions	(404)	(2)	AR – Other administrative expenses
		Impairment or reversal of impairment on financial assets not measured at FVPL	531		
		Profit or (-) loss from fixed assets and disposal groups classified as held for sale not qualifying as discontinued operations	30		
		Modification gains or (-) losses, net	-	(35)	CNB - Cash contributions to resolution boards and deposit guarantee schemes
		Impairment of non-financial assets	(130)		
Net result from equity method investments	8	Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	8	-	-
Dividend income	-	Dividend income	-	-	-
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	1	Gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	1	-	-
Gains/losses from financial instruments measured at fair value through profit or loss	(12)	Gains/losses from financial instruments measured at fair value through profit or loss	(12)	-	-
Pre-tax profit from continuing operations	**1,543**	**PRE–TAX PROFIT**	**1,543**	**-**	**-**
Income tax	(371)	Taxes on income	(371)	-	-
NET PROFIT OF THE YEAR	**1,172**	**NET PROFIT FOR THE PERIOD**	**1,172**	**-**	**-**

					BANK
Annual report (AR)	**in HRK million**	**Statement of financial position (CNB)**	**in HRK million**	**Diff.**	**Explanation**
Cash and cash balances	24,632	Cash on hand, Cash balances at Central bank and Other demand deposits	24,632	-	-
Financial assets held for trading	197	Financial assets held for trading	197	-	-
Non-trading financial assets at fair value through profit or loss – Equity instruments	19	Non-trading financial assets at fair value through profit or loss- Equity instruments	41	(22)	AR – Non-trading financial assets at fair value through profit or loss- Debt securities
Non-trading financial assets at fair value through profit or loss – Debt securities	39	Non-trading financial assets at fair value through profit or loss- Debt securities	17	22	CNB – Equity instruments
Financial assets at fair value through other comprehensive income	8,787	Financial assets at fair value through other comprehensive income	8,787	-	-
Financial assets at amortised cost – Loans and advances	56,156				
Trade and other receivables	879	Financial assets at amortised cost- Loans and advances	57,035	-	-
Financial assets at amortised cost – Debt securities	9,721	Financial assets at amortised cost- Debt securities	9,721	-	-
Investments in subsidiaries	680	Investments in associates, subsidiaries and joint ventures	718	-	-
Investments in associates	38				
Property and equipment	802				
Investment property	-	Tangible assets	802	-	-
Intangible assets	112	Intangible assets	112	-	-
Deferred tax assets	338	Tax assets	338	-	-
Other assets	177	Other assets	177	-	-
TOTAL ASSETS	**102,577**	**TOTAL ASSETS**	**102,577**	**-**	**-**

					BANK
Annual report (AR)	**in HRK million**	**Statement of financial position (CNB)**	**in HRK million**	**Diff.**	**Explanation**
Financial liabilities held for trading- Derivatives	175	Financial liabilities held for trading- Derivatives	175	-	-
Financial liabilities measured at amortised cost- Deposits	88,070	Financial liabilities measured at amortised cost- Deposits	88,070	-	-
Debt securities in issue	3,646	Debt securities in issue	3,646	-	-
Other financial liabilities	294				
Finance lease liabilities	93	Other financial liabilities	387	-	-
Provisions	582	Provisions	582	-	-
Tax liabilities	230	Tax liabilities	230	-	-
Other liabilities	495	Other liabilities	495	-	-
Total equity	8,992	Total equity	8,992	-	-
TOTAL LIABILITIES AND EQUITY	**102,577**	**TOTAL LIABILITIES AND EQUITY**	**102,577**	**-**	**-**

BANK

Annual report (AR)	in HRK million	Income statement (CNB)	in HRK million	Diff.	Explanation
Interest income	1,859				
Other similar income	76	Interest income	1,935	-	-
Interest expense	(121)				
Other similar expense	(67)	Interest expense	(188)	-	-
Fee and commission income	860	Fees and commissions income	860	-	-
Fee and commission expense	(262)	Fees and commissions expenses	(262)	-	-
Net trading result	309	Gains or losses on financial assets and financial liabilities held for trading, net	222	-	-
		Exchange differences [gain or loss], net	87		
Personnel expenses	(670)	Administrative expenses	(1,176)	1	CNB- Other operating expense
Other administrative expenses	(550)	Depreciation	(154)	34	AR- Other operating result
Depreciation and amortisation	(154)	Cash contributions to resolution boards and deposit guarantee schemes	(79)		-
Other operating result	(271)	Gains or losses from derecognition of non-financial assets, net	15		
Rental income from investment properties & other operating leases	3	Other operating income	29		
Net impairment loss on financial instruments	248	Other operating expense	(23)		
Gains/losses from derecognition of financial assets measured at amortised cost	-	Provisions or cancellation of provisions	(339)	(1)	AR – Other administrative expenses
		Impairment or reversal of impairment on financial assets not measured at FVPL	463	(34)	CNB - Cash contributions to resolution boards and deposit guarantee schemes
		I Modification gains or (-) losses, net	-		
		(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	(125)		
		Profit or (-) loss from fixed assets and disposal groups classified as held for sale not qualifying as discontinued operations	1		
		Impairment of non-financial assets	(6)		
Dividend income	47	Dividend income	47	-	-
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	1	Gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	1	-	-
Gains/losses from financial instruments measured at fair value through profit or loss	(13)	Gains/losses from financial instruments measured at fair value through profit or loss	(13)	-	-
Pre-tax profit from continuing operations	**1,295**	**PRE–TAX PROFIT**	**1,295**	**-**	**-**
Income tax	(318)	Taxes on income	(318)	-	-
NET PROFIT OF THE YEAR	**977**	**NET PROFIT FOR THE PERIOD**	**977**	**-**	**-**