Erste&Steiermärkische Bank d.d.

Annual Report for the year ended 31 December 2020

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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 Reporting, 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 2020 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

Due to the impact of the COVID situation on the entire economy, and a significant growth of risk costs, which includes future projections based on macroeconomic expectations, our financial result in 2020 was understandably reduced. However, it is important to stress that our business operations have remained completely stable. Despite challenging times, we maintained the continuity of regular lending activities and a steadily growing deposit base, while we have put a strong emphasis on the further development of our digital solutions. We've implemented a modern pan-European digital platform George. In addition to better user experience in mobile and internet banking, it also represents a platform for innovation, through which new functionalities will be continuously introduced in the future. Thus, we have managed to fulfil one of our strategic goals – to always be a frontrunner in digital innovations on the Croatian market and thus ensure the continuity in developing digital solutions, as a trademark of Erste Bank Croatia, as well as of the entire Erste Group in the CEE region. Aside from that, we have continued to develop our very successful and highly recognizable KEKS Pay app, which has been complemented with numerous new functionalities as well. At this moment, the app has more than 175,000 users, thereof more than 75% are not clients of our bank.

Fast and responsible reaction to COVID-19 challenges

As a systemically important institution, we have taken a proactive and socially responsible approach from the very beginning of the COVID crisis, investing maximum efforts to ensure our clients, citizens and companies are affected as little as possible by the current circumstances. A clear chronological order of the activities we carried out was established, falling into in three key phases: temporary suspension of the activation of forced collection measures, enabling the contracting of deferred repayment for up to 6 months (or up to 12 months for clients from industries most affected by the crisis, such as tourism and dependent activities), as well as granting loans aiming to preserve the liquidity of business entities, in cooperation with institutions such as the Croatian Agency for SMEs, Innovations and Investments (HAMAG) and the Croatian Bank for Reconstruction and Development (HBOR) while ensuring adequate guarantee schemes and favourable financing conditions.

The transparent, clear and timely communication with the general public, clients, business partners and employees through all available channels has marked our communication strategy in the previous period. What made up the essence of our communication content, ensuring the continuity and availability of all relevant information, were the messages focusing on quickly adapting to new circumstances, ensuring business continuity and implementing the recommendations given by the authorities, as well as the availability of all services to clients, with special emphasis on vulnerable groups, through the adjusted work of the business network and digital channels, and offers of measures of repayment deferrals to citizens and companies, that is, liquidity loans to business entities. Finally, the synergy of business, communication and socially responsible activities in 2020, a year marked by the pandemic, was rounded up with the contribution to the community through donation initiatives to healthcare institutions, in the total amount of HRK 2.5 million.

Business model quality confirmed by maintaining investment rating

As a responsible business entity, we have continued to successfully monitor and manage our loan portfolio, in line with our business policies and highest standards in the segment of credit risk management, while respecting all regulatory rules and adopting a balanced approach that respects the objective market situation and needs of our clients. Due to our stable liquidity position we have continued to meet all financial needs of business entities and citizens through our regular lending activities. We've remained a consistent partner to our clients, offering them adequate financial and advisory support. We are grateful for the fact that the renowned credit rating agency, Fitch Ratings, affirmed our credit rating at "BBB+" with a stable outlook. This is an investment grade ranking, two levels above the one currently held by the Republic of Croatia, at the same time representing the highest ranking of any bank on the Croatian market.

The most successful bank on the Croatian market - for the seventh time

We also received our seventh “Zlatna Kuna” award, which is presented by the Croatian Chamber of Economy to the most successful bank on the Croatian market. We perceive the award as a significant recognition, not just of the quality of our business, but also of our active role in the development of Croatia’s economy and fostering the prosperity of the entire community. That is why we will, in the future, continue to be an active participant in seeking and finding adequate solutions, which will ensure the fastest possible recovery of the Croatian economy.

Resilience, consolidation and collaboration - processes of the future

There are three main processes that will predominantly unfold in the next period, not only in Croatian economy but globally as well. The first is investing greater effort into boosting resilience, i.e., creating the so-called buffer that will allow companies to more easily adjust to surprise situations. The current context marked by the pandemic shows how important this is, and it will be even more important in the future. Being proactive, adjusting and improving one's business, with the aim of not only establishing successful and sustainable operations and generating profits, but also continuing to work on boosting business resilience, are important factors which will determine not only who will successfully overcome the current situation, but also who will successfully operate on the market in the future.

The second important process, in all industries, is market consolidation – on the one side are big players on the market, while on the other side are companies that have found a special niche in which they are very strong and are building their future business success on that. Therefore, things will be hardest for those who are currently in the middle and it can be expected that in the future there will be a lot fewer such companies, middle-sized players which had their place on the market in the past. Finally, time is slowly coming when collaboration will also be increasingly important, as the third prominent process. This is about embracing the position that what a competitor is doing is not always bad, and similarly that what "I" am doing is not always good, so to say. In the future, market players will need to view each other much more openly, and create possibilities for cooperation and achieving win-win results, that is, they will need to adjust their business operations to this new paradigm to a much greater degree than that has been the case so far. At our bank, we have already recorded several excellent instances of cooperation with regards to the development of our products and services with external partners, which has been shown to be a good approach.

Croatia can overcome the current challenges, but also be a leader in the region

There are several positive elements that can be singled out when it comes to Croatian economy's long-term position. For example, certain improvements can be seen when it comes to improving the general investment climate in Croatia and stabilisation of public finances, which has also been recognized by international credit rating agencies. Joining the Exchange Rate Mechanism (ERM2) puts Croatia one step closer to the adoption of the euro, that is, to achieving a strategic goal that will contribute to long-term financial stability for citizens and economy as a whole. A positive grade in the process of European Central Bank's comprehensive evaluation and the confirmation of Croatian banking system's stability is encouraging not only when it comes to the continuation of euro adoption process, but also in the context of challenges with which Croatian economy is currently faced. However, efforts on improving legal security must continue, primarily in the area of predictability of the legal framework, as one of the most important preconditions for sustainable progress.

The period ahead will be very challenging and will primarily depend on the impact of the epidemiological situation on the overall economy. The banks will play an extremely important role in that regard, because Croatia's robust, strong and adequately capitalized banking sector will serve as the backbone in the process of creating new economic growth and ensuring the prosperity of the entire social community. Through a joint, coordinated approach of all stakeholders, Croatia can overcome the current challenges and minimize all their potential negative impacts. Finally, we should not forget the long-term vision of turning Croatia into the financial centre of the region, based on a stable financial and banking system that can serve as a strong driver of the overall economy in the best possible positioning in the regional context.

Business sustainability and prosperity of Croatian society as ultimate goals

We are one of the leading banking groups on the Croatian market, and also one of the biggest providers of financial services in Eastern Europe, which bases its operations on a sustainable business model. In addition to the financial segment, this business model also includes a wide range of so-called non-financial activities which are described in detail in the non-financial report, a constituent part of this document. Taking into account our way of doing business and impacting society, we have identified six fundamental Sustainable Development Goals to which we want to contribute. They are: Good Health and Well-being (SDG 3), Quality Education (SDG 4), Gender Equality (SDG 5), Decent Work and Economic Growth (SDG 8), Reduced Inequality (SDG 10) and Climate Action (SDG 13). Our end goal is the prosperity of our clients, employees and the Croatian economy as a whole, while implementing the principles of openness, accessibility and transparency in public communication. The origin of that approach is found in the so-called Statement on Business Purpose, the fundamental document of our parent Erste Group, the fundamental goal of which is spreading prosperity and serving the civic society in Central and Eastern Europe.

Christoph Schoefboeck,
President of the Management Board

Management Board

CHRISTOPH SCHOEFBOECK, President of the Board
Responsibilities: Human Resources Division, Legal Division, Marketing Division (from 1 January 2020), Corporate Communication Office, Strategy and Project Management Division, Internal Audit Division (from 1 January 2020); until 31 January 2020 responsible for: Risk Management Division, Credit Risk Management Division, Collection and Work-out Division, Corporate Security Division, Non-financial Risk Division

BORISLAV CENTNER, Member of the Board
Responsibilities: SME Division, Large Corporates Division, Corporates and markets Business Development and Support Division, Financial Markets Division.

MARTIN HORNIG, Member of the Board
Responsibilities: Processing Division, IT and Organization Division, IT Strategy, Architecture & Governance Office, Property and Service Management Department; until 31 December 2020 responsible for Project Portfolio Management Office (from 1 January 2020 part of Strategy and Project Management Division)

ZDENKO MATAK, Member of the Board
Responsibilities: Retail Division, Retail Business Development Division, Direct Channels Division, Digital Transformation Team, until 31 December 2019 responsible for Marketing Division

KREŠIMIR BARIĆ, Member of the Board
Responsibilities: Accounting and Controlling Division, Asset and Liability Management Division, Economic Research Division, Group Tax Office
Member of the Board since 1 January 2020

HANNES FROTZBACHER, Member of the Board
Responsibilities: Risk Management Division, Credit Risk Management Division, Collection and Work-out Division (until 31 May 2020, part of Credit Risk Management Division from 1 June 2020), Corporate Security Division, Non-financial Risk Division
Member of the Board since 1 February 2020

SLAĐANA JAGAR, Member of the Board
Responsibilites: Accounting and Controlling Division, Asset and Liability Management Division, Internal Audit Division, Economic Research Division, Group Tax Office
Member of the Board until 31 December 2019

Business results of Erste&Steiermärkische Bank d.d. and its subsidiaries in 2020

I. Retail segment

Retail loans and deposits

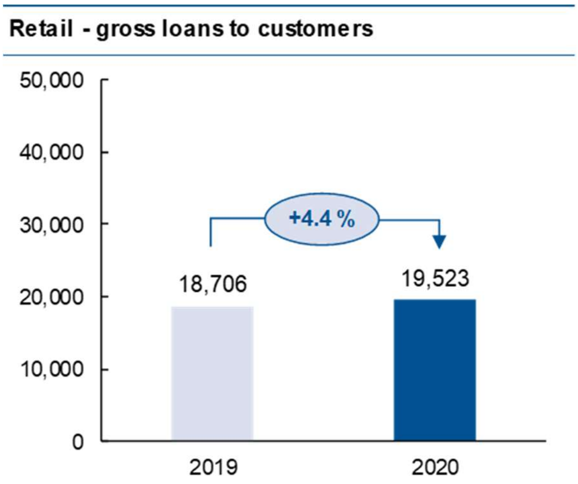


Chart 1: Retail loans in HRK million

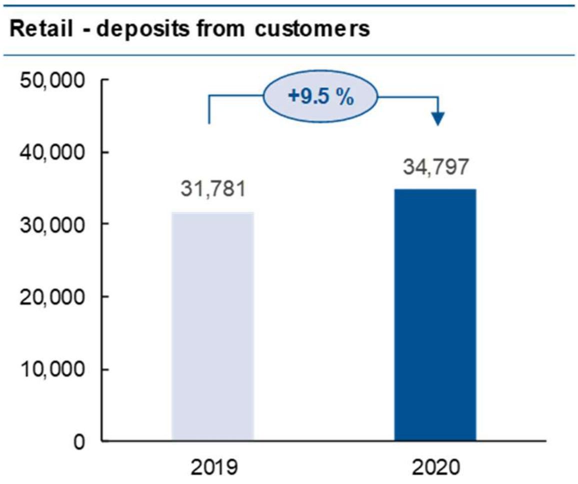


Chart 2: Deposits from customers in HRK million

Total portfolio of the Bank's gross retail loans amounted to HRK 19.52 billion on 31 December 2020, which is increase of HRK 817 million compared to previous year. The market share in retail loans, per Croatian National Bank, amounted to 14.07% as of 30 November 2020 which resulted with growth of 0.27% compared to 31 December 2019. The most significant growth was recorded in housing loans, which resulted in the growth of the market share (0.37%) in comparison with last year and as of 30 November 2020 amounted to 11.62%.

The retail deposit market continued its growth in 2020, reaching HRK 34.8 billion as of 31 December 2020, which represents increase of HRK 3.02 billion compared to previous year. Decrease of term deposits volume continued well into 2020. Retail deposits reached market share of 14.91% as of 30 November 2020, which represents increase of 0.48% in comparison to previous year.

Focus on clients in 2020

Focus on clients and quality of service, being one of strategic pillars of Erste bank, was especially emphasised during 2020. The year was mostly affected by extraordinary circumstances due to COVID-19 pandemic and earthquakes, which significantly influenced bank's business and emphasised need for finding quick and efficient solutions in order to facilitate the business with clients.

In order to help the clients overcome the negative impacts associated with the coronavirus pandemic and the aftermath of the earthquake, clients were granted with loan moratoria, in addition to online submission of forms and necessary documentation (without the need to visit a branch), with the signing of annex where the bank covered costs of solemnization. Furthermore, overdrafts on current account which were due have been extended, forced collection was temporary stopped and ATM withdrawal fee for withdrawal on ATM's outside of the bank's network was revoked for the period of four months. In addition, quick and efficient reaction to the extraordinary situation and following client's needs, Erste bank contributed in mitigating the negative consequences of the crisis which in turn resulted with strengthening of the market position in the field of customer experience and satisfaction, where we have achieved the best results for many years. From the beginning of the coronavirus pandemic, during which Zagreb earthquake occurred, up to 6-month loan moratoria period was granted to more than 9,200 customers, reaching almost 11,600 deals, while most of the moratoria loans was related to the consequences of the pandemic. Total of 244 customers impacted by earthquake, with total of 271 loans, filed a form for loan moratoria.

I. Retail segment (continued)

Inovations in Retail segment

With the long-term goal of ensuring financial prosperity for all its clients, Erste Bank presented a modern pan-European digital platform "George" in Croatia. At the level of the international Erste Group, George has been present for several years, where it is actively used by more than 6 million users in Austria, Czech Republic, Slovakia and Romania, and in 2020 also Erste Bank's clients in Croatia gained access to this digital platform. In addition to better user experience within mobile and internet banking, George is a platform for innovation through which new functionalities will be continuously introduced in the future, and with each upgrade it will become even more advanced, smarter and more intelligent. The first significant new functionality with which George platform has been enriched relates to the possibility of fully digital current account contracting for private individuals, intended for new and existing clients. The entire contracting process is completely digital, consists of only a few steps and does not require coming to the branch, and is supported by video identification and digital signing of documentation. The George Store is also available to clients, where they can already completely digitally contract a cash loan, open savings, order a Diners Club card, contract a Wiener travel insurance or purchase a mobile phone voucher. In addition, George offers an exceptional degree of personalization, allowing each user to create their own version of George, by having the user determine how they will view, sort and organize the information George gives them about their spending, savings, investments and payments.

Erste Bank continuously records good acceptance of its digital services, so during the year the number of users who actively use them was increased by 22%. The introduction of George created the preconditions for a significant step forward in the digitalization of business and the provision of new and improved functionalities to clients.

The quality and benefits of the Keks Pay application, in just under two years since the application was launched, have been recognized by more than 160,000 users, of which 75% are clients of other banks. During 2020 users are enabled to open a prepaid Keks Pay account free of charge with a corresponding Visa card called KEKSICA. Opening an account and ordering a card through the Keks Pay application is fast, easy, completely digital and free of charge. With this account it is possible to perform all transactions that are available within the application, and the biggest advantage is that the money arrives in the recipient's account immediately, regardless of the time of sending and regardless of from which bank is the sender of the money. The prepaid account and card can be used for payments in stores that support Keks Pay payments, sending money, paying for parking, replenishing mobile phone vouchers or ENC and for donations. In addition, the card can be used to pay securely online, in stores and to withdraw money free of charge at Erste Bank ATMs.

After the successful migration of current and business debit cards to the Visa brand, Erste Bank enabled its clients, users of Visa debit cards issued with private individuals accounts, to use the Apple Pay service. It is a service of simple, secure and convenient payment and cash withdrawal via Apple devices, without the use of a physical card. Online payments are also possible in applications or online points of sale that accept Apple Pay as a payment service, without the need to create an account or enter an address for delivery of items, since this information has already been entered when setting up the service.

In addition to standard forms of communication by phone, e-mail, chat and Facebook, Erste Bank has introduced two new ways of communication to its clients, Viber and Whatsapp, which further facilitates communication for clients.

In addition to the above, and in order to provide clients with a better and more uniform experience, the past year was marked by intensive activities aimed at digitalization of the credit process in the branch and through George, where we expect implementation in 2021. Also, Erste Bank actively participated in two tranches of the APN program for financing the purchase of real estate and the construction of houses, for which the Government of the Republic of Croatia approved subsidies of up to half of the instalment or annuity.

I. Retail segment (continued)

Digital banking in 2020

In 2020, Erste bank recorded an increased number of users of digital channels, as well as number of transactions and income. During the year, the focus was on the increase of active digital users. At the end of 2020, Erste bank recorded total of 341,561 digital users, of which 251,513 are active and which represents an increase of 22% compared to 2019.

Retail - digital and active digital users

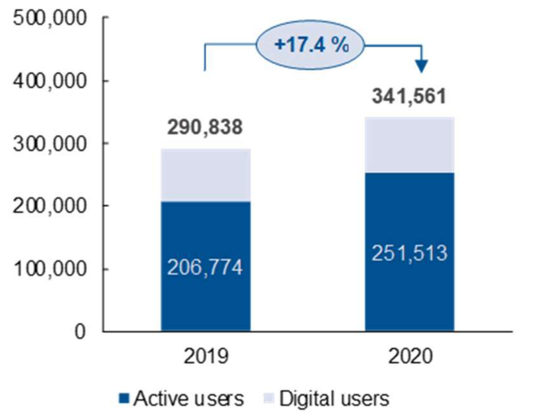


Chart 3: Digital and active digital users - Retail segment

Retail - active digital users structure

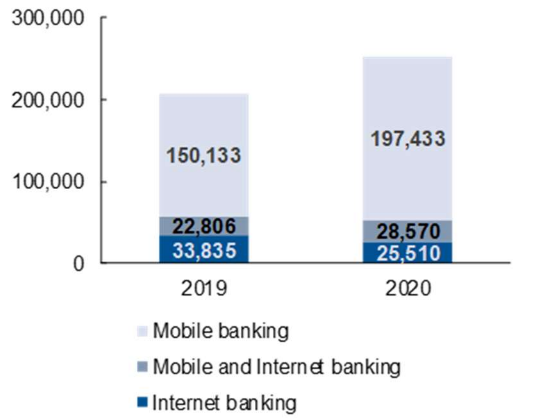


Chart 4: Active digital users structure - Retail segment

Contact centre

In 2020, a total of 870,416 contacts were made, which represents an increase of 1.66% compared to 2019, of which the centre's agents resolved 597,164 inquiries, 2% more than the year before. Of this number of inquiries, 84% were resolved by telephone, while the rest were related to communication by e-mail, chat and Facebook. 273,252 entries were recorded via the answering machine (IVR), almost identical to the year before.

II. Corporate segment

Corporate loans and deposits

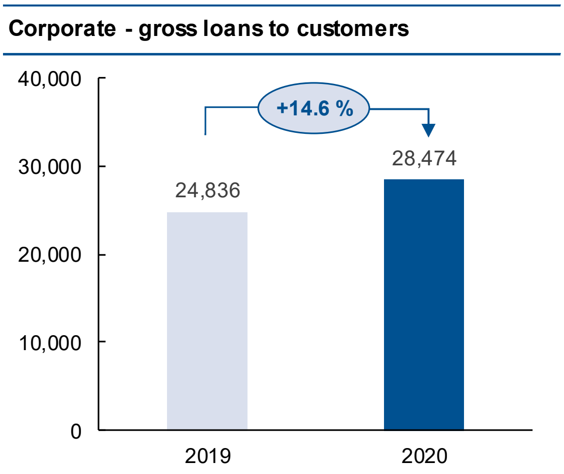


Chart 5: Corporate loans in HRK million

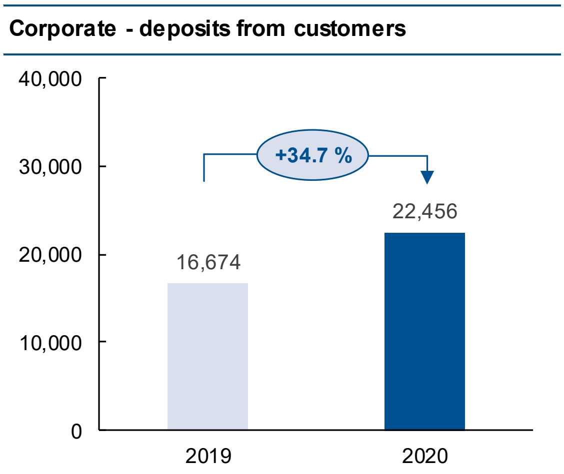


Chart 6: Corporate deposits in HRK million

Total portfolio of the Bank's gross corporate loans recorded significant growth in 2020 and amounted to HRK 28.47 billion as of 31 December 2020, which is increase of HRK 3.64 billion compared to previous year. The market share in corporate loans, per Croatian National Bank, amounted to 20.4% as of 30 November 2020 which resulted with growth of 1.31% compared to 31 December 2019.

The corporate deposit on 31 December 2020 amounted to HRK 22.46 billion, which represents increase of HRK 5.78 billion compared to previous year. Corporate deposits reached market share in the amount of 17.89% as of 30 November 2020, which represents increase of 3.89% in comparison to previous year.

Focus on corporate clients in 2020

COVID-19 crisis changed the course 2020 and focus was shifted on the operational implementation of measures related to assistance to business entities.

From the very beginning, the Bank made a maximum contribution so that clients are as little affected as possible by the current circumstances and that they can maintain the continuity of their operations. Activities related to the temporary suspension of the activation of forced collection measures have been implemented, repayment measures have been provided to companies with up to 6 or 12 months moratoria for clients from industries most affected by the crisis, such as tourism and dependent activities, and new financing has been provided in the form of corporate liquidity loans.

Prerequisite for the implementation of mentioned measures was integration with the FINA system with the aim of monitoring of filed requests by clients, but also the response on all requests to FINA.

In addition to the above, it was necessary to regulate with HBOR and local government the handling of loans approved in cooperation with HBOR, loans in which ministries, cities or counties subsidize part of the interest on deals for which additional moratoria is agreed.

II. Corporate segment (continued)

Initatives and projects

Despite the situation with COVID-19 pandemic, the development and improvement of products and services for the corporate segment in the past year was guided primarily by the set strategic goals, with the aim of providing complete financial services to clients, retaining the position of innovative and first-choice bank for clients. During 2020, two major migrations were performed. The first one included migration of business debit cards on Visa brand which allows greater acceptance while retaining the same functionalities clients had before migration. During June 2020, following the approval by Croatian National Bank, Erste Factoring was integrated into Erste bank. Integration allowed the synergies between existing procedures and knowledge regarding factoring business, as well as comprehensive advisory support in other aspects of financial operations ensures faster and easier business for clients.

Last year, Erste bank continued with successful and intensive cooperation with Croatian bank for Reconstruction and Development (HBOR) programs and guarantee instruments aimed at mitigating the negative consequences of the COVID-19 pandemic. The cooperation on the financial instrument „ESIF Loans for Growth and Development“ for SMEs continued. Also, the cooperation with European Investment Bank continued by signing credit lines to support SME and MidCap clients as well as public and private sectors while the criteria were modified due to the current COVID-19 pandemic.

HAMAG-BICRO introduced several amendments to the guarantee programme, while the most important are insurance against non-payment for the loans included in the portfolio with 80% coverage for the principal and contracted interest, increase in the maximum guaranteed amount to EUR 4 million and extension of eligible industries.

In December, new agreements were signed which resulted with „umbrella“ structure between Erste bank, European Investment Fund and Sparkasse Bank d.d. Bosnia and AD North Macedonia, through which, the Bank acts as coordinating entity for entities in Bosnia and North Macedonia for the implementation of the EIF instrument InnovFin SME Guarantee Facility - InnovFin guarantees for the loan portfolio to the small and medium enterprises.

The cooperation with European Bank for Reconstruction and Development (EBRD) was signed for long-term financing of tourist sector in Croatia and Montenegro intended for sustainable investments in private hotel companies and accompanying tourist activities. EBRD awarded the Bank for the most active partner bank in financing of international trade in Croatia for the third year in a row, as part of the award ceremony for the most successful partner banks.

In 2020 Bank published web page ‘The Support in Cross-Border Business’ which for the first time offers to clients full and structured information supporting their cross-border business through International Desk, Transaction Banking Competence Centre. Apart from local data and information web page provides link to the International Desk of the Erste Group with the data related to regional Transaction Banking Competence Centre. With this synergic approach, Bank’s clients can have comprehensive access to all the relevant data and information related both to regional, as well as CEE markets, while on the other hand, this web page also provides more accessible approach and contacts for all the clients from those markets planning to start business cooperation with the Bank.

During 2020, small business segment continued activities relating to the educations and presentations regarding self-service machines and digital channels usage in daily banking. Erste bank through its products and services emphasises easier and more secure financial management, as well as in the aspects of optimisation and costs savings relating to cash management, which was recognized by clients, which in turn resulted with decrease of cash handling in branches and increase of self-service machines usage by clients.

II. Corporate segment (continued)

Digital banking in 2020

The Erste NetBanking service has increased the number of users by 5% compared to previous year, while the number of business entites using the services increased by 34%.

The number and volume of transactions over Erste NetBanking and Erste mBanking services, remained on the same level as the last year. A total of HRK 28.7 million and foreign transactions were completed, accounting for a total volume of HRK 261.6 billion.

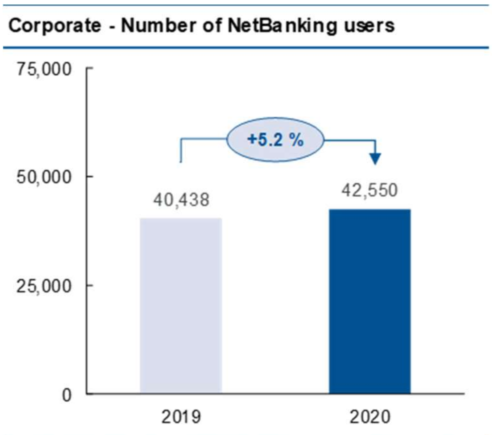


Chart 7: Number of NetBanking users - Corporate segment

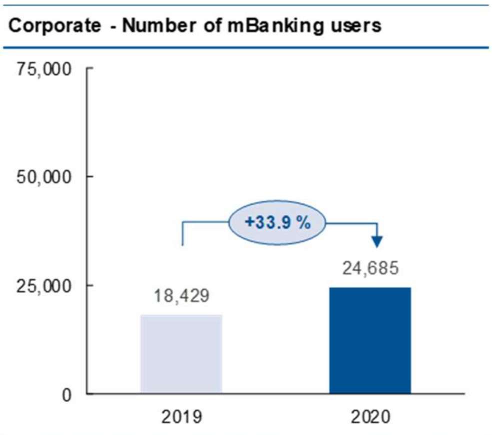


Chart 8: Number of mBanking users - Corporate segment

III. Macroeconomic indicators

Economic prospects took a turn for the worse going into 2020 amid COVID-19 outbreak, where negative effects were already hinted at the start of the year when growth slowed to just 0.4% in the first quarter. As anticipated, quarantine measures during 2Q20 had a strong negative effect on economic activity, with GDP showing double-digit contraction of 15.1% y/y. Most recent 3Q figures showed GDP decline moderating to 10% y/y, on the back of more supportive tourism role and stabilizing domestic demand performance. On the other hand, stronger pressure was visible on the external side, with exports and imports (albeit latter one to some lesser extent) declining by 32.3% y/y and 14.1% y/y, as follows, both largely reflecting slump on the services side.

As far as the outlook is concerned, the 2nd wave and strong deterioration of epidemiological conditions would weigh on the recovery trajectory as both domestic and external demand gets affected by containment measures and increased uncertainty. Hopefully, the recovery will gain traction from 2Q21, with the low base, private consumption normalization and EU funds-backed investments supporting domestic demand. External demand remains sensitive to the EU recovery trajectory, but tourism expected rebound should give a certain boost to the headline figure. Accounting for more supportive tourism role in 3Q20, outlook has been slightly fine-tuned as we expect FY20 GDP would contract close to 8.5%, while 4.5% growth in 2021 remains under uncertainty regarding pandemic trajectory.

COVID-19 adverse developments also negatively reflected on the labor market, with registered unemployment rate being on the rise since the start of the 2020, showing moderate monthly decline only during summer months on the account of seasonal support, before reverting back to upside trajectory. Nevertheless, upward unemployment rate trajectory has been less aggressive than initially anticipated, with labor market being safeguarded by the government measures, thus unemployment rates in 2020-21 are seen remaining in single-digit region, albeit at more elevated mark.

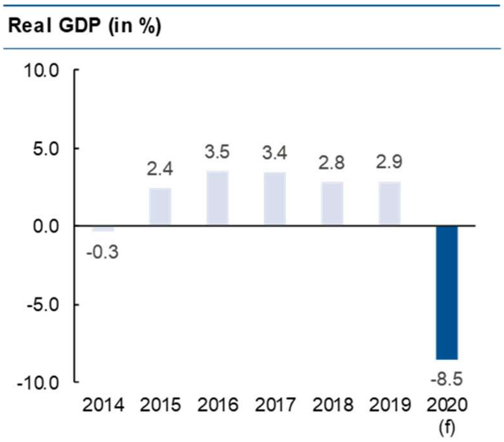


Chart 9: Real GDP (in %) 2014 - 2020

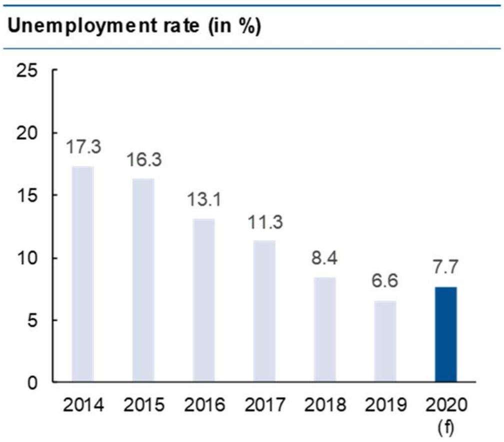


Chart 10: Unemployment rate in Croatia 2014 - 2020 per ILO definition

Current account, after maintaining positive developments in recent years, is expected to move towards negative area in 2020, with CA deficit seen landing slightly above 1% of GDP region. Such deterioration is largely consequence of worsened services outlook amid hampered tourism season prospects, while deflated imports should to some extent offset adverse movements. 2021 should bring recovery and reversal of CA back to surplus. Foreign debt is also set to remain on overall downward trajectory, although on somewhat elevated levels due to expected increase in 2020.

III. Macroeconomic indicators (continued)

The beginning of the last year brought an uptick in inflation footprint amid base effects and food and energy price developments. However, inflation movements slowed down afterwards, with CPI heading into the negative region in 2Q20 and remaining in mild red also during 2H20, wrapping up average 2020 CPI at 0.1% mark. Looking forward, we see inflation remaining in a tight band as demand-side pressures should remain largely deflated, while cost-push factors also appear to remain under control, implying only modest CPI acceleration in 2021. Recent exchange rate movements were largely in line with expectations, where after displaying some seasonality during summer, domestic currency moved in the 7.55-7.60 band in the post-tourist period, with CNB acting only to ease some of the appreciation pressures. We continue to see stable exchange rate trend going forward, further anchored by ERM II membership.

	2014	2015	2016	2017	2018	2019	2020 (f)[1]
Nominal GDP (HRK billion)	331.3	339.7	351.2	367.5	385.4	402.3	368.3
Nominal GDP (EUR billion)	43.4	44.6	46.6	49.3	52.0	54.3	48.8
GDP per capita (EUR thousand)	10.3	10.6	11.2	11.9	12.7	13.3	12.0
Real GDP (growth y/y, %)	-0.3	2.4	3.5	3.4	2.8	2.9	-8.5
CPI (y/y, average %)	-0.2	-0.5	-1.1	1.1	1.5	0.8	0.1
Current account balance (EUR billion)	0.1	1.5	1.0	1.7	0.9	1.5	-0.9
Current account balance (% of GDP)	0.3	3.3	2.1	3.5	1.8	2.7	-1.8
Foreign debt (EUR billion)	49.1	48.2	44.7	43.7	42.7	41.0	41.5
Foreign debt to GDP (%)	113.1	108.1	95.9	88.7	82.2	75.5	85.0
Loc. Curr./EUR year-end	7.66	7.64	7.56	7.51	7.42	7.44	7.55
Loc. Curr./EUR average	7.63	7.61	7.53	7.46	7.41	7.41	7.55
Unemployment (%, ILO definition)	17.3	16.3	13.1	11.3	8.4	6.6	7.7

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

Positive fiscal trends should come to a halt in 2020, following COVID-19 outbreak and governments efforts to contain negative effects – unfavourable economic growth outlook, alongside rising pressures on the expenditures side, suggests budget gap in the region around 8% of GDP in 2020. Consequently, public debt would reverse its trajectory by moving towards 87-88% of GDP level in 2020. Nevertheless, news on the rating side remain supportive, where S&P and Fitch affirmed Croatia’s grade, while Moody’s upgraded Croatia's rating by one notch to ‘Ba1’, with stable outlook. Rationale behind this decision came as no surprise, as euro adoption aspirations and ERM II membership, along with the corresponding reform efforts, were cited as positive drivers. Road towards euro adoption will remain strong tailwind, though, further upgrades are pending COVID-19 dust settling and fiscal position getting under control. We continue to expect Croatia would maintain investment grade status going forward.

IV. Financial markets

Money market

Year 2020 was marked by a coronavirus pandemic, which caused great uncertainty and fluctuations in global financial markets in March. In the domestic market, the Croatian National bank (CNB) intervened several times during March by selling euros to prevent further depreciation of the kuna and to stabilize the exchange rate. More than HRK 17 billion has been withdrawn from the system. Shortly afterwards, the obligatory reserve rate was reduced from 12% to 9% in order to release additional liquidity (HRK 10.5 billion), which should enable the banking system and the economy to overcome the crisis more easily. In April, the CNB and the European Central Bank (ECB) agreed to establish currency swap line that would be available to the CNB in case of need. The rest of the year was marked by extremely high kuna liquidity in the system and low interest rates. The excess liquidity at the end of the year amounted to HRK 54.7 billion, which is an increase in liquidity by HRK 20 billion compared to the end of 2019. This is 15 times the minimum amount required for the system to function normally.

FX market

Growing uncertainty over the effects of the pandemic has created strong demand for hard currencies. It was partly caused by a change in short-term expectations regarding exchange rate movements, when it became clear to most investors in the domestic financial market that the seasonal appreciation of the kuna exchange rate should be absent due to the expected decline in tourism revenues. In addition, investment funds faced strong withdrawals at the start of the pandemic. At the same time, there was a strong growth in foreign currency deposits of banks in March, which shows that deposits raised from funds were eventually transferred to commercial banks. This has increased banks' demand for foreign exchange. On 10 July 2020, Croatian kuna joined ERM II with a central rate fixing of 7.5345 to the euro with a standard fluctuation band of ± 15%. The exchange rate of the kuna against the euro appreciated during July and in the first half of August, driven by expectations regarding the strengthening of the kuna due to better tourist indicators than expected. Such expectations changed in mid-August due to the tightening of epidemiological measures in emitting markets, so the exchange rate began to depreciate slightly. The movement of the exchange rate of the kuna against the US dollar and the Swiss franc, kuna moves between 7.00-6.20 against USD and 7.20-6.95 against CHF.

Debt securities market

We entered 2020 on historically low yield levels on both local and international Croatian bonds, HRK denominated bonds maturing in 2029 were at 0.65% while EUR denominated bonds maturing in 2030 traded around 0.75%. With COVID-19 pandemic emerging at the end of February we witnessed huge market turmoil fuelled by mounting selling pressure across different asset classes which resulted in strong surge in yields. Extraordinary crisis required similar kind of response with CNB coming into the secondary market for the first time as a buyer of Croatian government bonds in order to anchor yields, total size amounted to a respectable HRK 20 billion.

In the moments of highest uncertainty, EUR denominated bonds maturing in 2030 (CROATI 2.75 01/27/30 - XS1713475306) traded at 2.22% or 261bps above comparable bonds issued by Germany. After a series of monetary and fiscal measures around the world, markets began their recovery and yields started do compress back to lower levels.

At the end of 2020 HRK denominated bonds maturing in 2029 traded around 0.65% level with EUR denominated bonds maturing in 2030 trading around 0.50%. Similar or even lower yield levels than before pandemic give us the answer to how appropriate, fast and timely response was by governments and central banks across the world.

IV. Financial markets (continued)

Capital markets

The beginning of the year started with investor caution. March was marked by a great panic of investors and a sharp drop in the prices of all shares. However, the rest of the year was marked by a gradual recovery in the value of shares and increasing trade turnover. Despite significant growth in the last two months, on the last trading day of this year, the Crobex ended with large losses on an annual basis. Crobex has been down about 13.5 percent since the beginning of the year, and Crobex10 about 9 percent.

This is a consequence of the sharp fall of the index in March due coronavirus pandemic. And while the world's largest stock exchanges have recovered, so the MSCI index of all world stock exchanges is hovering around record levels, while Crobex is lagging in recovery. Since March, majority of MSCI index have recovered somewhat, given that Crobex slipped just 1.322 points that month.

Share turnover on the ZSE in 2020 amounted to HRK 2.85 billion, which is a slight increase of 5.55% compared to 2019 (HRK 2.7 billion). The bank maintained its second position with an increase in market share from 11.2% to 15.4%.
The Crobex stock index opened the year over 2,000 points (2,029) to be at its lowest point at the end of March at 1.365 points which is a drop of 1/3, but unlike the index in the region the return was not equal. We ended the year at 1.739 points, which is a drop of 15%.

If we look at the indices in the region, they did better, Slovenian SBITOP ended the year in minus only 3%, Romanian BET -1.7%, Austrian ATX slightly worse -13%, while German DAX despite a drop of 37% at the worst moment in late March nevertheless pulled the year in plus 3.6%.

Custody group

The coronavirus pandemic (Covid-19) has left a deep impact on the capital market during 2020, which is particularly evident in the value of assets under custody. After a record value on 31.12.2019. of HRK 11.7 billion and fluctuations in asset value during the second and third quarters caused by panic and uncertainty, the last quarter of 2020 brought an increase in stability and a return of interest of clients for investments in the capital market and ultimately led to the stabilization of the value of assets under custody at the level above HRK 9.05 billion.

The return of clients` confidence in the capital market is also evident in the number of newly opened custodial accounts, which increased by 24% compared to 2019, and the same conclusion can be reached by monitoring the number of transactions settled through custodial accounts. In 2020, 11,470 transactions were settled in custodial accounts on domestic and foreign markets, which compared to the previous year with 4,786 settled transactions, indicates a significant increase in the number of transactions of 140%.

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, (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

Erste Bank AD Podgorica (EBM), during the year 2020, which was marked by a pandemic COVID 19, resulted with profit before tax of EUR 5.53 million which is 59% less compared to the previous year. Total operating income amounted to EUR 28.7 million in 2020, which is 2% lower compared to 2019.

Net interest income was in the amount of EUR 24.3 million and by 4.4% higher compared to the previous reporting period, mostly due to intensive lending during 2020. Net interest margin decreased from 5.02% at the end of 2019, to 4.78% at the end of 2020 which is in line with the market trend. Net fee and commission income amounted to EUR 4 million and decreased by 27.74% compared to the end of 2019. In the year of recession caused by the COVID 19 pandemic, resulted in reduced economic activity and poor tourist season, a lower number and volume of transactions in payment services and card business is noticeable.

Risk costs was in amount of EUR 6.1 million. Credit risk cost for balance exposures amounted to 1.41% and was significantly higher compared to the end of 2019, when it was positive 0.37%. NPL coverage was 104% at the end of 2020, which represent decrease from 112% at the end of 2019. Operating costs were recorded in the amount of EUR 16.7 million and compared to the previous year they were slightly lower (0.1%).

At the end of the year 2020 total assets amounted to EUR 638.8 million, which compared to 2019 was an increase of 5.6%. Net loans to customers amounted to EUR 424.8 million and were by 9% higher compared to 2019, of which EUR 231.6 million related to retail lending and EUR 193.1 million related to loans granted to corporate segment.

The previous year was quite challenging in the retail sector due to COVID-19 pandemic circumstances had a dominant impact on business. Gross loan portfolio recorded growth of EUR 4 million (1.7%) compared to the end of 2019. The loans are granted in the amount of EUR 39.3 million in 2020 in which cash loans comprise the largest share of 58%, followed by housing loans (31%). The main cause, in addition to the circumstances caused by the COVID-19 pandemic, are certainly the measures of the Central Bank of Montenegro related to shortening the maturity of unsecured cash loans. Deposits of non-resident clients amounted to EUR 47.53 million while maintaining our market position in resident deposits, which proves the trust of our clients.

In 2020, corporate division had growth of the loan portfolio in amount of EUR 42 million (25.8%). The growth represents 63.08% of the total net growth of the banking market in Montenegro, thanks to which our market share increased for 2.22% from 11.17% to 13.39%. The significant growth was recorded with the General governments segment thanks to the placement of long-term loan in amount of EUR 30 million. Private companies recorded an increase in net loans by EUR 9.93 million (7.74%), which increased the market share in this segment by 0.59%, from 12.23% to 12.82. The growth in respective segment represents 26.65% of net market growth. Due to the significant growth of the portfolio as well as the minimal decrease of interest rate on loans, corporate segment achieved growth of interest income of EUR 1.05 million (17.76%) compared to previous year.

Total deposits increased by EUR 12.2 million compared to previous year and amounted to EUR 416 million at the end of the year, of which retail deposits accounted for EUR 177.8 million, and corporate deposits for EUR 238.2 million. Corporate deposits increased by EUR 21.1 million (11.54%) compared to the end of previous year. The entire market of corporate deposits decreased by EUR 79.1 million (4.64%), which in turn increased market share by 1.82%, resulting with the market share of 12.58%.

The achieved result can be considered significant having in mind that it was achieved in the year of extraordinary circumstances. Our focus was on preserving the customer base and improving the quality of service. Erste Bank AD Podgorica operates through a network of 17 branches throughout Montenegro and serves more than 112 thousand customers at the end of 2020.

Erste Bank will continue to develop customer-oriented products and services, analysing the market needs and potentials, in order to provide its customers with the best support. The focus will be placed on enchasing customer base and increasing satisfaction of customers in parallel with the care for the welfare of employees, community and the shareholders.

VII. Erste Card Club d.o.o.

General information

During 2020, Erste Card Club Group (Erste Card Club Group consists of: Erste Card Club d.o.o., hereinafter ECC; Erste Card d.o.o., hereinafter EC SLO and FC Diners Club International Mak d.o.o.e.l. Skopje, hereinafter DC MAK; collectively hereinafter ECC Group) achieved positive business results.

Erste Card Club d.o.o. (ECC) adapted its operations to the newly arisen situation caused by the coronavirus. Clients who faced difficulties earning their income or had lost their jobs as a result of the epidemic, but who had previously paid their obligations on time, were allowed to postpone paying monthly invoices in the period from 1 March to 30 June 2020. Clients could apply for payment deferral via the ECC Mobile App for all cards. Those clients who were unable to pay their obligations even by 30 June, were granted a deadline extension until 30 September 2020.

As a result of significant and systemic investing in people, security tools and IT infrastructure, ECC successfully completed the certification process in line with the international Payment Card Industry Data Security Standard (PCI DSS). In order to undergo the certification, new safety checks were introduced, and the existing strong safety checks were further improved in the area of business processes, technologies and employees. The certification was carried out with the aim of further protection of card data and clients, in all systems that process, transmit or store data, i.e. detailed control and supervision of how data is handled throughout the entire data usage process.

In October 2020, ECC Mobile App (EMA) had more than 100,000 users. In addition to allowing digital onboarding of new clients, EMA also allows fast and simple management of expenses. Additionally, users can input the prices of products or desired services and check whether they are available for purchase in instalments; change the invoice date; browse discounts at merchant locations; cancel the card and order a new one in case they lose their card or it gets stolen.

In December 2020, ECC sold 100% business shares in the company DC MAK. In the future the company will be the direct Diners Club International franchise holder for the area of North Macedonia, taking over the right of Diners Club credit cards issuing and acquiring in this market.

Credit cards

ECC total number of credit cards as of 31 December 2020 amounts to 401,235. The year was strongly marked by the COVID-19 epidemic that had impact on new sales level as well as credit cards consumption. During the initial lockdown from March till May, new sales were limited to digital sales channel, but despite these challenges, new sales of credit cards reached 32,602 new credit cards. Market share in credit cards remained stable and as of 30 September 2020 amounted to 23.90% which represents decrease of 0.01% compared to the previous year. Activities are aimed at selling through digital channels alongside digital marketing campaigns, on increasing the share of digital onboarding compared to traditional (paper) channels, as well as on activating and retaining existing clients and strengthening the brand's image in the market.

EC SLO total number of credit cards as of 31 December 2020 amounts to 73,917, at the same level as the previous year with 4,918 new cards sold. Sales activities were aimed through digital marketing campaigns. Market share as of 30 June 2020 amounted to 8.84%, which is the same level as the previous year.

DC MAK total number of credit cards as of 30 November 2020 amounts to 14,630 cards. Market share as of 30 June 2020 amounted to 4.06%.

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

Card volumes

Total ECC issuing volume in 2020 amounts to HRK 6,958 million, with market share of 26.08% (an increase of 54 bps compared to 3Q 2019). Total ECC acquiring volume decreased by 8.1% YoY with market share of 15.42% (10 bps increase compared to 3Q 2019). Lower volumes were mostly influenced by decrease in consumption due to COVID-19 epidemic. Total number of ECC transactions in 2020 is on the same level as 2019, at 55 million transactions. Total number of ECC's EFT POS devices amounts to 19,496 as of 31 December 2020. Market share of EFT POS network increased to 18.28% as of 30 September 2020 (45 bps increase vs YE 2019).

EC SLO total volume amounted to EUR 146.3 million in 2020. The total number of transactions amounts to 2.0 million while market share of issuing volume as of 30 June 2020 amounts to 6.41% (52 bps decrease compared to 2Q 2019). DC MAK total volume amounted to EUR 18.5 million in the first eleven months of 2020 with a decrease of 19.7% YoY, while the total number of transactions amounted to 0.3 million with market share of issuing volume on POS devices as of 30 June 2020 amounted to 7.60% (an increase of 8 bps compared to 2Q 2019).

Financial result overview

Consolidated net profit amounts to HRK 7.8 million with a decrease of HRK 143.5 million compared to 2019. The decrease is a result of the decline in consumption and higher risk provisions because of new non-performing loan (hereinafter: NPL) inflow and aging of existing NPL portfolio due to worsening of macroeconomic situation.

Operating result amounts to HRK 119.2 million in 2020, with a decrease of 23.8% YoY, as a result of interest income and consumption decrease due to COVID-19 crisis. Payment suspension of the penalty interest income was applied in the period from 18 April 2020 to 18 October 2020. Local regulatory changes of decreasing maximum interest rates also put additional pressure on the operating result. Consolidated net fee and commission income totals HRK 227.7 million representing a decrease of 11.1% compared to 2019 because of the decrease in a turnover due to COVID-19 crisis and the trend of decreasing average merchant service commissions.

Consolidated risk provisions in 2020 amount to HRK 93.3 million which is HRK 115.1 million higher compared to the same period of 2019, as a consequence of higher NPL inflow, the IFRS 9 revision parameters and worsening of macroeconomic situation due to COVID-19 pandemic. Nonperforming loans coverage ratio is stable and amounts to 95.5%.

Consolidated general administrative expenses amount to HRK 258.1 million in 2020 with a decrease of 6.5% in comparison to 2019. The decrease of personnel expenses by 5.1% is a result of lower provisions for bonuses and severance payments and lower number of employees. Other administrative expenses are lower by 8.1% compared to 2019 as a result of lower marketing costs, benefits to the clients and optimization activities. Depreciation costs are lower by 2.7% or HRK 0.8 million.

Other operating result in 2020 amounts to HRK -12.8 million and it is lower by 176.6% compared to 2019 when insurance policy income from operational risks was received.

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

Erste Leasing concluded 3.234 new leasing contracts in 2020 with total value of HRK 766.1 million, with a market share of 15.4% as of 30 September 2020 per latest available data published by Croatian Financial Services Supervisory Agency (HANFA). Total assets amounted to HRK 2.88 billion as of 30 September 2020, Erste Leasing holds third place with a market share of 13.9%.

The Company's business operations were affected by the coronavirus pandemic, as a result of which the demand for leasing products was lower, and significant risk provisions were applied to the existing portfolio. The Company's net profit in 2020 amounted to HRK 22.9 million, with a decrease of 42.6% compared to 2019.

Net interest income amounted to HRK 75.1 million, resulting with growth of 4.3% compared to 2019. Interest income represents the most significant share to the Company's result and refers mainly to interest from finance lease, which remains at stable last year's level of HRK 102 million. Interest expenses decreased by 12.6% to HRK 26.9 million due to decreased funding needs and lower costs of funding sources.

Income from operating lease amounted to HRK 83 million and is lower by 13.7% compared to 2019 due to the decrease of operating lease in the portfolio.

The net trading result refers to net exchange differences which amounted to negative HRK 3.4 million in 2020.

General and administrative expenses amounted to HRK 99.9 million and were lower by 12.9% compared to 2019 due to decrease of depreciation and amortisation expenses and lower realization of other administrative expenses due to a more conservative approach in managing variable costs as a result of coronavirus pandemic.

In 2020, the Company's risk provisions significantly increased to the amount of HRK -25.9 million (2019: HRK -1.2 million) which reflects the impact of the coronavirus pandemic on the entire economy.

Non-financial Reporting

The EU has regulated mandatory non-financial reporting for companies within the EU with Directive 2014/95/EU, which was implemented in the Croatian legislation in December 2016. Non-financial reporting leads to greater transparency and responsibility of all companies in the European Union. The legal requirement notwithstanding, Erste Bank Croatia (EBC) had a prior tradition of informing the public about its activities in non-financial and corporate social responsibility segments in its Annual Reports.

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 a total of 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 mostly 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 and thus make the greatest contribution to the individual and society as a whole.

Non-financial reporting and corporate social responsibility enable the Bank to support and promote the development of different segments in society through a wide range of activities, aimed towards the wellbeing of its own clients but also the wider community in which the Bank operates, through supporting various humanitarian and educational as well as cultural and sports institutions across Croatia. In this process, the Bank takes into account the specific regional characteristics and local needs present in the society.

The vision of Erste Bank Croatia in its operations is to be the best bank in Croatia taking care of the security of its clients and offering the best quality of products and services, taking account of the wellbeing of its employees, shareholders and the community. The aim of non-financial reporting is to better inform all interested parties about this vision and about everything EBC does in order to achieve it. Through the segments of business, social and environmental responsibility EBC aims to fulfil its mission, i.e. encourage and support its clients, employees, shareholders and the community in achieving wellbeing together.

EBC's efforts in this segment are aided by a commitment to transparent and open communication with the media as mediators between us and the general public. At the same time, 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 reporting

As already stated, Directive 2014/95/EU, which entered into the Croatian legislation at the end of 2016, stipulates the obligation of non-financial reporting for all companies with more than 500 employees. In this respect, the non-financial report of Erste Bank 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 will achieve a more sustainable living and a better life for each individual, as well as peace and prosperity for all. Precisely prosperity for the society and each individual is one of the EBC's goals, which it is trying to achieve through its operations.

Sustainable development goals (continued)

Erste Bank Croatia, as well as Erste Group, supports all 17 Sustainable Development Goals. Taking into account its business form and its impact on society, EBC can contribute by its operation and by achieving six goals:

1. Good health and well-being (SDG 3)
2. Quality education (SDG 4)
3. Gender equality (SDG 5)
4. Decent work and economic growth (SDG 8)
5. Reducing inequalities (SDG 10)
6. 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 part 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 the topic of Anti-Corruption and Financial Literacy, are relevant to several interested groups of the public, but for better text organisation, they are categorised as one unit.

Through 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 8)

Responsibility in conducting business, especially when it comes to the treatment of clients, 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. Also, 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 program).

Client satisfaction (SDG 8)

In order to ensure the conditions stipulated by this SDG, incentives for small entrepreneurs and incentives for innovations are necessary. In this objective of sustainable growth, EBC has recognised its role as an essential factor in generating economic growth. Through operations, EBC aims to take care of the most vulnerable groups of society through the placement of special products. Also, the aim is to prevent the negative effects in the society through responsible business, anti-corruption policies, and employee education. Furthermore, EBC aims to provide as many people as possible with access to the bank's financial assets and services through our programmes of socially responsible banking.

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 international Erste Group as well as guidelines for managing IT systems issued by the national regulatory body.

Employees

Diversity and equality (SDG 5, 10)

Gender equality is a global issue that prevents peaceful and stable development and progress of humanity. EBC has been working systematically and hard on combating any gender or 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 to combat inequality.

Trainings and development of competences

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.

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

The health and well-being of all, but primarily its own employees is one of the sustainable development goals identified by EBC as extremely important. 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.

Society

Social banking (SDG 8, 10)

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 access to funding for all. Also, increasing financial literacy, which allows everyone to have the same starting point in the knowledge of finance, is one way in which good foundations can be laid for progress towards fulfilling this goal.

Financial literacy (SDG 4, 10)

Acquiring a quality education is one of the fundamental rights of every individual, and precisely knowledge is one of the main drivers that pushes society forward. In 2018, the need for increasing financial literacy in the society was identified, so EBC launched the programme of free workshops and video trainings called the School of Smart Finance. By the end of 2020, about 8,000 people attended these workshops (unfortunately, because of the specific pandemic circumstances, in-person workshops were held only at the beginning of last year).

Social responsibility

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. Also, Erste Bank Croatia endeavours to nurture a two-way communication with the local community and achieve as much transparency as possible.

Environment

Effective management of environmental impacts (SDG 13)

Unfortunately, people are witnessing increasing environmental disasters that result from the lack of humanity's care for the environment in which it lives. Since this is a problem that affects all sectors of the economy to a certain extent, more and more companies have lately been introducing more sustainable operations and increasing care for the environment. Therefore, EBC also strives for business processes of the highest quality and for environmentally sustainable business in the segment of ecology and environment. When decorating its branch offices, as well as in its daily work and in communication with clients, EBC strives to achieve the highest environmental standards. EBC demands the same from its suppliers.

Suppliers

Responsibility in selecting suppliers (SDG 10,13)

Erste Group, including Erste Bank Croatia, 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.

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 (GRI 401-3, 405-1) Trainings and education (GRI 404-1) Health promotion (GRI 403- 6), Flexibility in workplace	Diversity and equality and prevention of discrimination Trainings and education 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	Energy (GRI 302-4)	Energy Emissions and greenhouse gases 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 program). The **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.

In line with its **Anti-Corruption Policy**, the Bank enters into business relationships only based on integrity and high ethical standards. Employees of EBC must avoid any activities that might lead to or suggest that the Bank will offer or accept bribes. Under no circumstances can the Bank offer any kind of value to a civil servant (or a member of a civil servant's family or any charity organization that a civil servant suggests) with the aim of influencing the recipient to take or desists from taking a specific official action, or with the purpose of influencing the civil servant to do business with the Bank.

Furthermore, the Conflict of Interest Policy defines a general framework for identifying and managing potential conflicts of interest and supports the Bank's employees in establishing standards in their work within identified areas where a potential conflict of interest might occur. The policy includes general principles for organizational conflict, the performance of activities that are not job-related, general principles on receiving business gifts and principles related to the conflict of interest when providing investment services and activities. The Bank works on raising awareness and educating its employees on recognizing 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.

In its operations, the Bank implements the principle of zero tolerance towards fraudulent behaviours harmful to the interests and/or assets of the Bank, towards corruption, violation of existing rules and regulations, the Bank's legal acts and ethical principles. The Whistleblowing Policy establishes the process of reporting inappropriate behaviour regarding financial irregularities, corruption, fraud and money laundering, conflict of interest, actions against the Bank's rules and procedures, violating regulations on banking operations and the process of controlling and resolving these reports as well as the manner of responding to and protecting whistleblowers.

EBC continuously educates its employees with the aim of raising awareness of the importance of managing conflicts 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.

During 2020, the bank's employees were continuously educated on topics related to anti-corruption principles, conflicts of interest and the principles of the Bank's Code of Conduct. A total of 2330 employees of the Bank were educated about anti-corruption principles and conflicts of interest, which accounts for 87.14% of the total number of employees. Furthermore, in 2020, EBC received one report of a potential irregularity which did not include instances of corruption.

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 Group Tax Office for Croatia was established in March 2017 in order to ensure this.

The activities of the Office include ensuring tax compliance of Erste Bank Croatia and its affiliate companies in Croatia as a whole, coordinating 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 the context of regulation, it is worth noting that the Bank and its subsidiaries fully comply with the newly implemented rules on the obligation to report on cross-border tax arrangements (DAC 6), thus demonstrating support in the fight against tax avoidance and tax evasion.

In addition to tax compliance, another important task of the Group Tax Office is to support its colleagues in the Bank and affiliate companies to optimize 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 organizational units in the Bank.

The Tax Code of the Bank was adopted and approved by the management Board in early 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 organizes trainings and workshops for its employees for this purpose.

Products and services

Responsibility in conducting business, especially when it comes to the treatment of clients, 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, while also looking after vulnerable groups of clients, offering products customized to meet their specific needs, such as loans with specific terms and lower banking fees for pensioners. The Bank offers a special savings product for children under the Medo Štedo brand 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 customized rewards programme, and in 2020, EBC continued its activities related to the segment of young clients who have a special current account, Erste Cashtag, introduced for children and young people under the age of 18 which comes with a debit card, which makes it easier for parents to teach children about financial responsibility without charging account maintenance fees.

Challenges of 2020

Since the very beginning of the coronavirus pandemic, EBC has taken preventive measures to ensure uninterrupted continuity of its business activities and availability of services to clients, taking into account the decisions of public authorities on restrictions on movement and temporary suspension of public transport. In this context, particular focus was placed on ensuring the regular functioning of payment operations, the availability of digital banking services, as well as on ensuring a sufficient amount of money across the entire ATM network with cash withdrawal fees at ATMs of other banks temporarily abolished.

Challenges of 2020 (continued)

Clients who have difficulties paying off their loans have at their disposal various methods aimed at helping them pay off a loan, for example, they may opt for a grace period, and given the special circumstances related to the coronavirus epidemic and the aftermath of the earthquake in Zagreb and its surroundings, a quick and simple measure of delaying the repayment of credit obligations for a period of three to a maximum of six months was introduced. Given the significant impact of the current circumstances related to the coronavirus pandemic on the tourism segment, EBC has enabled its clients, who carry out a tourist activity or other tourism-dependent or tourism-related activity, to opt for a credit grace period of up to 12 months. In order to facilitate the submission of client requests, the possibility of submitting the request via the website was introduced as well as the realization of the deferral without clients needing to come to the branch office and the Bank has taken over the costs of solemnization which may represent a big cost for clients in these situations. Also, in order to alleviate the situation, the activation of new collaterals for the collection of outstanding overdue debts incurred after 31 December 2019 was temporarily suspended, and the calculation of default interest was temporarily suspended. Special measures were introduced for private and business clients.

In 2020, the Bank continued to actively participate in subsidized 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) in two waves. In 2020, a new loan model for the construction of family houses was introduced.

Changes in customer behaviour and habits, technology and 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. During 2020, activities which were part of branch transformation project have continued, which in addition to a new visual identity, is characterized by a new way of working focused on the advisory role of employees and a unique user experience for clients. Through the new process of approving non-purpose consumer loans, the time from approving and disbursing loans has been significantly reduced, as well as the necessary documentation.

In the SME segment, communication activities with clients were carried out in order to educate and present the advantages of using Erste Bank self-service devices and digital channels in everyday transactions. These products make daily financial management simpler and safer, and optimise the cost aspect of cash operations because they enable clients to achieve additional savings by using them. The advantages were recognized by the client and the trend of further reduction of cash operations and non-cash orders in branch offices has continued, while the use of self-service devices and digital channels has been growing.

During the year, 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, and in 2020, were primarily focused on mitigating the negative consequences of the Covid-19 pandemic.

The Bank cooperated with the Croatian Bank for Reconstruction and Development (HBOR) on regular programmes and guarantee instruments and under the financial instrument "ESIF loans for growth and development" for small and medium-sized enterprises. In cooperation with the European Investment Bank, further financing of SME and MidCap clients was provided, including public and private sector clients whose conditions have been adjusted to the new situation caused by the Covid-19 pandemic. With HAMAG-BICRO, guarantee schemes have been adjusted by increasing the maximum guarantee percentage for working capital loans and by increasing the maximum guarantee amount for investments to EUR 4 million and for the expansion of eligible activities. At the end of the year, contracts were signed on the basis of which an ‘umbrella structure’ was contracted with the European Investment Fund (EIF) for the implementation of the InnovFin SME Guarantee instrument on the SME loan portfolio, while the EBRD cooperation continued through the credit program aimed at supporting the development of the tourism sector (sustainable investments in private catering and tourism activities). Also, the EBRD gave EBC the award for the most active partner bank in financing international trade in Croatia for the third year in a row.

Challenges of 2020 (continued)

Furthermore, the Bank continued pursuing cooperation with institutions on local markets, entering into or extending business cooperation with counties and local governments through various programmes aimed at supporting SMEs and subsidizing housing loans for citizens.

The Bank operates in accordance with Responsible Business Principles which aim to ensure rules relating to funding, i.e. the provision of services in the area 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.

Digitalisation

During 2020, EBC made significant steps in digitising business operations and providing new and improved opportunities to clients, which was greatly significant during the lockdown that lasted during March and April 2020 because clients were provided with significantly easier access to services and products they needed.
The KEKS Pay app, which EBC offered to users a little over two years ago, recorded a 100% increase in the number of users last year, of which there are currently around 175,000. Although user habits have changed significantly due to the pandemic and the primary function of KEKS Pay - the cost allocation - was used slightly less due to objective circumstances, the total number of transactions increased from 400,000 in 2019 to more than a million last year. Interestingly, 75% of the users of the app are not EBC clients and that fact is present since the very beginning.

The possibility of donating to various humanitarian initiatives and associations was one of the most important functionalities of KEKS Pay app in 2020 and early 2021, with special emphasis given to the speed with which it was possible to donate to the Solidarna Foundation and Fund 5.5 after the earthquake that hit Sisak-Moslavina County. In this way, just over HRK 2 million was collected, out of a total of HRK 9.3 million. Options that a large number of users have recognized as useful include the payment of parking via the KEKS Pay app, the purchase of vouchers for mobile phones and the option of topping up ENC devices. Last year, thanks to the implementation of the so-called plug-ins for the WooComerce and Magento platforms, online store purchases via KEKS Pay also increased significantly. Moreover, last year, users were able to open a prepaid Keks Pay account with a corresponding Visa card called KEKSICA free of charge. Opening an account and ordering a card via the Keks Pay app is fast, easy, completely digital and free of charge. With this type of account, it is possible to perform all transactions that have already been available within the app, and the biggest advantage is that the money arrives in the recipient's account immediately, regardless of the time the money had been sent and regardless of the sender's bank.

Pursuing the long-term goal of ensuring financial prosperity for all its clients, EBC introduced the modern pan-European digital platform George in Croatia last year. Besides providing a better user experience within mobile and internet banking, George is a platform for innovation through which new opportunities will be continuously introduced in the future, and with each upgrade, it will become even more advanced, smarter and more innovative platform. The first major new functionality which the George platform offers is the possibility of fully digital current account contracting for citizens, intended for new and existing clients. The entire contracting process is completely digital, consists of only a few steps, does not require clients to come to the branch office, and is supported by video identification and digital signing of documentation. The users can also use George Store, where they can digitally take out a cash loan, open savings account, order a Diners Club card, contract Wiener travel insurance or buy a mobile phone voucher. In addition, George offers an exceptional degree of personalization, enabling each user to create their own version of George, by having the user determine how they will view, sort and organise the information George provides them concerning their spending, savings, investments and payments.

The continuous upgrading of the EBC website should also be noted. So, for example, a subpage of the Bank was published in 2020, which for the first time aggregates all necessary information regarding the support of cross-border operations for clients (via International Desk or Transaction Banking Competence Centre). In addition to providing local data, the site is also linked to the Erste Group International Desk website, which also contains all the information of the regional Transaction Banking Competence Centre. This facilitates comprehensive access to information related to the regional or CEE market for Bank's clients and enables the Bank's contacts to access all clients from those markets who are interested in future business cooperation. The site was published only in Croatian and the English version is expected to be published in January 2021.

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. The Bank's strategic goal is to provide excellent, simple, accurate, transparent and timely service. 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 almost 80% of complaints solved within three working days.

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 to create an overall picture of client satisfaction with the provided service, including the overall treatment of the Bank's employees towards the clients. The measuring investigates the area of satisfaction with the Bank's 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 directly influence the clients' experience. The Committee meets four times a year to determine the service quality goals, monitor the service quality and decide 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 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. Thus, in 2020, another five branch offices were redesigned, bringing the number of redesigned branch offices since 2018 to 13. This kind of branch operating model, which is characterized by changes in both the visual appearance and the approach to work, is aimed at changing the service model in retail business. The plan is to continue the redesign of branch offices according to the new concept.

EBC is available to clients through multiple channels in order to facilitate access to information and allow clients the right to issue a complaint at any given time. In addition to standard channels (call, email, chat, video call and Skype), the EBC's Contact Service became available via the social network WhatsApp at the end of 2020, making EBC the first bank on the market to offer this option.

Client experience and contact centre (continued)

EBC’s long-term focus on excellent clients experience in all contact points with the Bank has also been recognised by clients, as is shown in the CXI (Customer Experience Index) results, which indicate long-term growth trend that remained present in 2020. This result proves that EBC successfully, timely and transparently communicated with its clients during the most uncertain circumstances we have all encountered and provided excellent experience, particularly by ensuring the availability of all digital services, ATM network, as well as branch office services during the coronavirus pandemic and after the earthquakes that hit Zagreb and Sisak-Moslavina County.

Right to personal data protection

Personal data protection represents a 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, and are guaranteed to every individual regardless of nationality, residence, race, 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. The regulation added value to EBC in terms of its ability to get closer to its clients through transparent operations, using the legal framework as an additional opportunity and motive to raise the level of safety of the entire security system. The General Data Protection Regulation 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 access and management of 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 as well as the exercise of the rights of clients, employees and associates in accordance with positive legal regulations by monitoring 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

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 international Erste Group as well as guidelines for managing IT systems issued by the national regulatory body.

EBC continuously renews the PCI/DSS certificate. This standard confirms that the Bank’s operations are in compliance with this high-quality international payment system standard, which requires continuous investment in technology and business processes with the aim of ensuring security for the clients and their sensitive card data. Information security policy, the process of handling data and computer network structures are just some of the twelve areas of strict requirements that companies must meet in order to ensure data protection. Consequently, in 2020, the Bank successfully completed the recertification process confirming that its business processes are in compliance with PCI/DSS standards.

Employees

The goal of EBC is to be the best bank in Croatia that cares about the safety 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.

The individuality of each employee is appreciated and respected, as well as the fact that they enrich the organisation with their diversity. Therefore, EBC strives to provide its employees with a motivating working environment by caring about all elements of well-being: through career, i.e. a meaningful and purposeful job, through intellectual progress and opportunities to acquire new knowledge and skills, through good and healthy relationships, economic security and stability, and ultimately care for one's own health. Also, 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

Erste Bank Croatia has a total of 2,462 employees, of whom 1,792 are women, while 670 are men. Employees aged 30 to 50 are predominant. Employees aged 30 to 50 are predominant.

Table 2: Employee structure

TOTAL		< 30 YEARS OF AGE		30-50 YEARS OF AGE		>50 YEARS OF AGE	
women	men	number	%	number	%	number	%
1,792	670	304	12%	1,799	73%	359	15%

Women account for 72.8% of the employees and the remaining 27.2% are men. When we look at the share of women in managerial positions, we see changes in trends compared to previous years. In 2020, women occupy 33% of top management positions, while their share in 2019 was 28%. Particularly noticeable are the changes in the representation of women in B-1 positions with their share significantly increased in 2020 - from 28% to 42%. There is also a positive trend in the middle management positions with women occupying 66% of such positions, while their share in 2019 was 63%. The average age of the employees in the company is 39.8, while the average age of employees in management positions is slightly higher and is 45.

Table 3: Structure of managing bodies

SUPERVISORY BOARD	women	men			
	29%	71%			
MANAGEMENT BOARD	women	men	<30	30-50	50>
	0%	100%	0%	17%	83%
B-1	women	men			
	42%	58%			
B-2, B-3, B-4	66%	34%			
Total Top mgmt	33%	67%			

Combating discrimination is provided in the Code of Ethics, while the Rules of Procedure and Collective Agreement describe the procedure for reporting and the activities to be undertaken by persons authorised to deal with complaints. A special decision of the Management Board appoints persons from the Legal Affairs and Human Resources Sector to be responsible for resolving complaints related to claims for the protection of dignity and protection against discrimination within EBC.

Diversity and gender equality and prevention of discrimination (continued)

Special attention is paid to preventing discrimination in the recruitment and selection process – EBC's calls are open to applications from all interested candidates who, according to their competences and experience, meet the conditions of the workplace, regardless of gender, age, nationality, etc. Through individual or group counselling, managers are working on raising awareness of unconscious discrimination in order to make quality and impartial decisions regarding the selection of candidates, and the prohibition of discrimination is integrated as one of the key elements in Employment Policy.

In early May 2017, the ESB Group's Diversity and Inclusion Policy, available in Croatian and English, was adopted. It regulates the principles of diversity and inclusion with which the ESB group undertakes to comply. Erste Group's diversity management is organized as a “Group Function” and is located within Erste Holding, as part of the Sustainability Management Office.

EBC responds to a variety of initiatives, panels and lectures on diversity and actively promotes it at all professional conventions outside the bank.

In 2020, the strategy of goals related to the senior management structure was revised at the level of the Erste Group and long-term goals for the 5-year period were defined, which will be monitored in two steps. The target regarding the share of women in top management positions at EBC was defined as follows: 34% by 2023 and 41% by 2025. The focus of the strategy for achieving this goal is on developing a corporate culture and career management tools that support all employees regardless of gender.

In addition to supporting female executives, the focus is also on ensuring equal opportunities for the advancement and development of employees of different age groups, especially those under 30 or over 50, and encouraging successful collaboration in multi-generational teams. Thus, special attention is paid to ensuring that lifelong learning is always a part of the development initiatives and that the 50+ employee segment is equally involved in all educational activities.

With regard to the principles stated above, several activities were initiated in 2019 to support the respect for diversity in the organisation, and despite the specific working conditions in 2020, part of these initiatives continued to be implemented. The workshop, launched in 2019, called #razlicitoplavi, whose main goal was raising awareness of stereotypes and prejudices and which around 500 employees attended was included in the HR catalogue of development activities. The workshop remained part of the HR offer in 2020, but, of course, available online.

The diversity communication activities continued via the intranet, in a manner adjusted to events in 2020 and the needs of EBC employees. Special attention was paid to the inclusion of diversity as an important topic in the new, redesigned process of introducing new employees. In order to raise awareness of the importance of gender equality, all materials, instructions, and guidelines for new employees were written using the feminine gender providing an explanation of why this was done and why diversity in EBC is important. Moreover, the EBC has continuously been working on benefits that support diverse groups of employees and contribute to the work-life balance.

In order to motivate EBC employees to use parental leave, in 2020, a special e-mail to each new father was sent which included a congratulations message for a major life event, listing the benefits of staying on leave with the child and basic information and instructions on exercising the right to use parental leave.

In mid-2020, regular management reporting on the basic diversity parameters in EBC was launched. Data on gender and age distribution among different groups of employees are now part of the monthly report on employees intended for directors. In this way, diversity is monitored using numbers and figures and management awareness of the importance of diversity management is strengthened.

In 2020, no cases of discrimination were reported.

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 to emphasise 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. During 2019, in cooperation with the Business Council for Sustainable Development, EBC became involved in trainings and initiatives related to promoting diversity and is an active member of the network of experts in this field at the European Union level.

In early 2020, EBC joined the Alliance for Gender Equality, an initiative that brings together companies committed that advocate increasing the number of women in management and other positions, equal pay for equal work and equal opportunities for advancement. Through quarterly meetings of the Alliance, there is an opportunity to exchange experiences and good practices in the field of women's empowerment for management functions with other members and support each other in the implementation of such practices.

At the end of 2020, EBC joined the European project Diversity@Work, coordinated in Croatia by the Diversity Charter. The project includes 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. Completion of the project is planned for next year when we will receive the final materials for use.

Code of Ethics

The EBC Group Code of Conduct is the point of reference for all actions and behaviours and serves as a link in acts regulating employee behaviour during the performance of their activities. It describes all relevant points, clearly defines obligations, and sets the grounds for action for all employees as good corporate citizens. The Code also regulates the need for responsible behaviour, respecting others and sustainability in all aspects of operations, thus protecting the good reputation of the Bank and gaining trust towards the institution.

By adopting the Code of Conduct, the Bank wishes to ensure a certain quality and business sustainability standard through the prism of its employees and corporate culture. The EBC Group Code is also a continuous development process with no expiration date or period of application and is mandatory for all employees. It is available in Croatian and English.

In 2018, EBC launched ethical workshops for target employee groups where the Bank relates guidelines from the Code of Conduct to actual challenges and situations and promotes positive behaviours. EBC continued offering these workshops, as well as lectures on Code of Ethics, in 2019. Workshops and lectures are a mandatory part of educational programmes for certain groups of employees (e.g. new employees, newly appointed managers, sales employees...), and modules for free application of all interested were organised.

In 2020, due to the inability to hold in-person workshops, an e-learning training course was launched on the subject of the Code of Conduct, which a total of 1,050 participants attended and successfully passed by the end of the year. In addition, for colleagues from the sales network, the content of the workshop about the Code of Ethics was adapted to the online format and workshops were held via MS Teams.

Internal service quality

The process of internal service quality management is one of the ways to establish cooperation between different units of the Bank and EBC Group. Through this process, the employees have an opportunity to provide open and constructive feedback on their cooperation with various organizational units and request feedback on their work, based on which they can improve the ways in which they cooperate with others.

This process also establishes criteria 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 taken in order to improve cooperation with others.

The systematic and continuous work on internal quality is important primarily for the Bank to ensure excellent services for external clients, and also to strengthen corporate culture based on community and teamwork.

Vezica

As an additional recruitment channel, EBC continued with “Vezica” (“Connection”) programme in 2020, which is a programme for attracting new, high-quality IT employees using the network of existing employees. Together with the IT sector and organizations, certain IT positions are 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 EBC. In this way, it is ensured that existing employees become promoters of Erste Bank Croatia as well as the selection of candidates who might not have applied through a standard job ad. In 2020, preparations began for the further development of Vezica programme. Under the new concept, Vezica would include proactive recommendations for a broader range of jobs, creating a larger range of potential candidates.

Interna uskakalica

In 2020, a platform called Interna uskakalica (“Internal Jump-in-to-Help”) was introduced, as an additional channel for internal fulfilment of temporary and short-term resource needs. The goals of this platform are to optimally manage resources and working hours, efficiently manage labour costs, encourage cross-functional cooperation and support, exchange of knowledge, experience and work methods within the organisation.

Spajalica

Spajalica (“Get-Together”) is a programme connecting employees with the Management Board, offering an open communication channel through which employees in cities across Croatia have the opportunity to talk to Members of the Board and share their thoughts, experiences, priorities and plans throughout the year. This form of communication with the Management Board was not continued in 2020 due to the special circumstances, but it is planned to continue as soon as epidemiological circumstances allow it. Nevertheless, the Management Board and employees had the opportunity to communicate via an internal communication platform - intranet, where, during the challenging last year, numerous information was published in form of text news and videos about the Management Board's opinion on various topics as well as employees' opinions.

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

The Bank continually works on improving the cooperation with employee representatives so that this open communication channel can 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 2020, despite the circumstances, these meetings were organized quarterly in a way that the epidemiological situation permitted, most often online.

In addition to this, Erste Bank Croatia actively encourages sharing knowledge among 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. Through 2020, sharing knowledge and work-educational meetings were organised via new virtual communication tools. The recommendation to all organizational units was that, regardless of the circumstances, they maintain exchanges of information among teams and adapt them to online collaboration tools, thus maintaining the team spirit and involvement of their employees.

Blue elephant

This corporate culture project 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:

_ Employing a particular ("right") profile of people
- *Super profile* – defining a universal and optimal profile of candidates for specific jobs (e.g. cashier);

_ Cooperation
- Developing the culture of open, honest and constructive feedback with mutual respect;

_ Impact and development management
- Lowering responsibility, delegating tasks, promoting and celebrating success, having credibility;

_ Consequence management
- Communicating good and bad things/segments in a timely manner and assuming responsibility;

_ Innovativeness
- Dedicating time and resources to the development of new ideas and innovativeness in employees

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

Blue Elephant goals:

_ to raise awareness about the importance of corporate culture and its impact on employees and clients
_ to ensure personal engagement from top to bottom as well as dedication to implementing changes
_ to ensure easy and simple identification of all employees with the purpose of the company
_ to increase satisfaction with internal communication
_ to contribute to the quality of human resources management

Essentially, the Blue Elephant operates on two levels: the systematic and personal level. As such, it is integrated into a number of processes that have a wide reach in the organisation, but it is also a continuous work with individuals to truly live according to the defined principles.

#radimpametno

In mid-2020, prompted by the changes in the way of working, communication and cooperation caused by the pandemic, the initiative #radimpametno (#worksmart) was launched – a platform whose aim is to enable smarter and better work and focus on the real values that are important for both employees and EBC clients. The idea behind the name of the initiative was to encourage review, adaptation and change of everything that is not in accordance with common sense, that 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 the EBC operations and work. There are three main areas of development:

- infrastructure - providing technical equipment, collaboration tools and workspace that enable employees to #worksmart (#radimpametno)
- processes - redesigning and creating meaningful and simple client-focused processes
- culture – flexible forms of work (Flexi time and Flexi place of work) which encourage employee responsibility and independence and make it easier to balance work and private life and strengthen trust in relationships with managers. More trust – less control is one of the basic principles on which the #radimpametno initiative is built.

Initiatives in the field of culture were the first to be implemented. A set of guidelines related to the way meetings are organised and how e-mails are written and sent was created and initiative I love Friday was launched – with Friday designated as the day for carrying out development activities and developing team relationship.

In the field of the process, we are continuously working on simplifying key client-oriented processes, and now we want to work more actively on improving internal working methods. For example, in the field of human resources, online testing tools have been introduced and working principles related to selection and employment have been redefined. Also, processes of introducing new employees to work have also been redesigned and modernised.

As far as infrastructure is concerned, in 2020, all employees were able to collaborate through the MS Teams app and the first phase of technical equipping was launched providing employees with a company mobile phone. Next year, we plan to provide laptops to all those working from home, further invest in improving technical infrastructure, as well as make investments and improvements related to workspaces.

The final goal of the initiative is to ensure modern and flexible working conditions that support efficiency and effectiveness, but also provide a work-life balance, thus contributing to the health and satisfaction of employees.

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.

Of course, these activities took a different shape in 2020 and were provided in the form of webinars, online education and workshops, e-learning and educational video materials. In the end, the average number of hours of education decreased, but minimally. However, the decrease was negligible considering the working conditions and circumstances.

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

	WOMEN	MEN	MANAGERS	EMPLOYEES
Number of hours	67,776	23,881	10,839	79,139
Average number of hours	38	36	99	34

Trainings and education (continued)

EBC believes that a combined approach and life-long learning are the optimal learning methods. The Bank, therefore, offers a variety of opportunities and types of educational programmes:
- Trainings, workshops, seminars
- Participation in conferences
- Internal knowledge transfer
- Mentorship
- Coaching
- Rotations
- E-learning
- Project work, etc.

Through the online training catalogue, all employees have the opportunity to choose the educational programmes in which they wish to participate, depending on their own needs for upgrading knowledge and in agreement with the managers. The programmes are divided into:

- Professional trainings
- Trainings related to the key company education model
- E-learning trainings related to key competences and regulatory obligations
- Trainings for upgrading technical knowledge (MS Office, etc.)
- Personal skill development programmes
- Employee rotation programmes
- Programmes for the effective transfer of knowledge (“Train-the-Trainer”, mentor training, etc.).

Given the specific circumstances, a part of the planned educational activities was realized throughout 2020, as already mentioned. Wherever possible, online and virtual forms of knowledge transfer or e-learning content were used.

Competences of the Future

EBC is trying to keep up with the trends and make the most of the impact of technology on the operations, so it also encourages the adoption of new competencies, such as the use of digital technologies, artificial intelligence, agile work methods, etc. The purpose of such activities is to direct the company’s culture towards growth, recognising new opportunities and addressing the needs of the modern market and clients.

Through the strategic project Competences of the Future, launched in 2019, strategic competencies on which future educational activities will be built have been identified.

Numerous workshops, experts’ lectures, the digital school for employees’ children, e-leadership programmes aim to bring employees closer to the “competencies of the future” and demystify them, as well as to motivate employees to acquire new knowledge and be open to new things.

As a new learning and development channel, as of this year employees have the opportunity to use an online learning application (Degreed), through which they have access to an extremely wide range of topics and trainings. This is aimed at creating new learning habits, redirecting the development initiative to the employees themselves, and enabling learning in accordance with personal preferences, anywhere, anytime, and through all online devices.

Competence Quarter

Trainings related to the key company training model are offered in the Competence Quarter format, which gives employees an opportunity to apply for trainings for individual competences and introduces them to a different competence each quarter. In addition to this, since the intention is to offer different training formats to EBC employees, short 90-minute trainings (” Espresso Trainings”) were introduced, offering trainings in specific skills such as feedback, SMART goals etc., depending on the current topic in the performance management cycle.
Due to the specific working conditions in 2020, and consequently the specific needs of employees, the Competence Quarter was organised in a form and with topics adapted to the specific conditions and needs. Employees were offered content related to the challenges of working from home, balancing private and business life during lockdown situations imposed due to the pandemic, coping with stressful events and psychological empowerment. Such content was available to employees via video materials and written content on the intranet, webinars and online workshops and e-learning. Special content was created for managers in order to successfully adapt to the situation of virtual team management and communication via online tools.

All employees have the opportunity to apply for some of the trainings at their own initiative, regardless of their job type or role. Last year, every EBC’s employee underwent some form of training. Out of the total number of days invested in trainings, 51% were internal trainings organised and facilitated by internal trainers from the Bank, employees of organizational units or Human Resources Division, which shows that EBC is still making very intensive use of the internal knowledge database and internal trainers.

Compared to the previous year, the average number of training days per active employee has slightly decreased and was 4.25. However, considering the working conditions in 2020, this is a good result.

Table 5: Average number of training days per active employee

	2017	2018	2019	2020
	4.89	4.17	5.08	4.25

Employee programmes

In 2020, due to business line needs, development of various tailor-made programmes for specific groups of employees continued:

- *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 leadership and soft skills for managers
- *UP* - programme for the development of managerial and sales skills for sectors in business operations with corporates,
- *HR refresh* – a programme for line managers related to current issues and practices managers encounter in their everyday operational staff management,
- *E-Leadership Academy* – programme for top manager, for the development of modern leadership skills and adoption of new trends and strategic competences
- Specific targeted programmes for individual organisational parts, depending on established development needs

Employees also have the opportunity to participate in workshops related to current topics on the work environment, such as *Diversity* and *Ethics in business.*

Employee programmes (continued)

Erste Bank Croatia employees also have the possibility of attending various specialized trainings organized by the owner, Erste Holding. These trainings cover the needs for specialized trainings which are not available on the market or the number of experts at disposal is too low to organize an in-house program. EBC highlights the following:

1. Front-Office Credit School Programme
2 Licence-to-Lend
3 Non-Financial Risk (NFR) Manager Programme
4 Strategic RM Training Programme
5 Credit Portfolio Management for Distressed Portfolios
6 Group WO Training
7 Data Science for Managers

A special emphasis is also placed on identifying and developing talents, i.e. employees who show high potential. International programmes are organised for them at Erste Holding level, 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, by internal coaches and educators.

Due to specific circumstances during 2020, most of these programmes were shortened, and wherever resources and contents of the programme permitted, programmes were held online.

Employee work-life balance and health

Starting in August 2019, a new position has been introduced – Employee Benefit and Satisfaction Coordinator. Their task is to integrate, structure and improve the pre-existing activities and initiatives that fall into the area of employee health care, occasional sports, and trainings on physical and mental health and introduce new ones in accordance with the employees' interests.

The common denominator of all activities and initiatives is Well.being. 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.

The wellbeing elements representing the Erste Standard, a document adopted in 2019, cover five interrelated areas that affect one another: career, social aspect, finance, intellectual advancement and health.

In different life situations, the importance of certain elements changes, and it is necessary that all elements are represented and 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 of ones for the other into our daily operations, collaborations, processes and development.

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

The year 2020 was very challenging in terms of well-being and physical and mental health for all employees. To make it easier for them to adjust to working from home and cope with a long-lasting pandemic, internal resources have launched a 'mental health corner' on the intranet aimed at maintaining mental health and balance, and an Erste hotline for mental health support has been launched. The idea behind this platform for mental health is to help employees overcome fears and concerns and encourage them to take care of their mental health through conversation with the expert team and regularly published content on current topics. In addition to providing phone contact, we have offered employees the option of sending inquiries via email or anonymously via a web form.

All Erste employees who were affected by the March earthquake were proactively contacted via the mental support helpline and were offered support and advice to help them cope with the consequences of the earthquake. The same has been done at the end of the year after an even more devastating earthquake hit the Sisak-Moslavina County.

Employee work-life balance and health (continued)

In order to meet all the set goals, Erste employees have the following benefits at their disposal:

- Trainings and development programmes focused on professional growth and development, and additional lectures and workshops that are not closely related to business topics;
- Internal job openings available to all;
- Annual awards depending on the results achieved, appropriate payments (Easter, Christmas bonus, recourse, gift for Christmas 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;
- 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 requires more time devoted to private obligations and solidarity;
- More favourable products of the Bank and associated companies and additional benefits in terms of cheaper prices of services and products made possible through a wide and stable network of external partners in several categories (e.g. culture, sport, health, beauty, entertainment, travel, knowledge...);
- Various initiatives that bring fun into the daily business (marking Ugly Christmas sweater day by wearing Christmas sweaters one day in December, shorter working hours for all women on Women’s Day, posting texts on the occasion of Day of Happiness, Day of Kindness, helpful online shopping instructions ahead of Black Friday...)

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	%
102	72%	39	28%	71	50%	66	47%	4	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	%
174	9%	56	8%	60	14%	123	7%	47	14%

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

2019				2020			
WOMEN		MEN		WOMEN		MEN	
number	%	number	%	number	%	number	%
80	84%	3	100%	108	81%	9	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 visible to new employees who are necessarily undergoing a set of initial trainings in which the role of security also plays a role.

Occupational safety represents an important segment in everyday operations of the Bank. Last year, this segment took on an extremely important function of prescribing and implementing measures to protect against the coronavirus according to the recommendations of the National Civil Protection Headquarters of the Republic of Croatia. In order to protect and prevent EBC employees, as well as employees in related companies of the Bank, the epidemiological situation was regularly monitored, and based on that, new working methods were organized and recommendations related to the work of employees were created.

Occupational safety as a system prescribes a range of organization 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 are trained in theory and practice, depending on the type of training.

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. Occupational safety also covers fire protection trainings 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, disinsection, deratisation) and other preventative space maintenance.

Salaries

Erste bank's salaries and benefits policy is guided by the principle of transparency (all pay grades are publicly available to all employees), the market principle and the principle of safety and stability for employees and their families. Compliance with these principles is one of the cornerstones of decision making in the area of salaries and benefits. Also, as noted above, during 2019, the Erste standard was defined, which EBC undertook to follow in 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.

With its programme of support to entrepreneurs, EBC has so far financed 260 clients in Croatia with 4 million euros in loans, and the most represented activities of supported projects are service activities, transport and agriculture. This is 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 within the last two years. The aim of the programme is to encourage self-employment and development of entrepreneurship by providing support on the path of designing and realising a business idea. It includes free online trainings on relevant entrepreneurial topics, consulting and financing. So far, nearly 1,800 start-up entrepreneurs have successfully completed the training, over 600 business plans have been developed and 3,700 hours of consultations have been conducted by the bank.

In addition to supporting start-up entrepreneurs, EBC has been implementing the programme of support and funding of non-profit organisations and social entrepreneurs and partnership programmes since the beginning of 2019. A total of 50 non-profit organisations and social entrepreneurs have been funded with EUR 1.7 million during this year. Non-financial support was provided through the Erste Foundation through the implementation of two projects - loans with an interest rate of 0% for up to 6 months and additional one-time grants in response to the crisis related to the coronavirus pandemic and devastating earthquakes.

Financial literacy

School of Smart Finance

For more than 20 years, Erste bank has been working in Croatia to improve 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 as a financial institution has a responsibility in the field of financial literacy development at every age.

Therefore, based on a survey which showed that 87% of citizens recognise the importance of financial literacy, in 2018, the Bank launched a pilot programme called the School of Smart Finance. In 2019, this programme which includes free educational workshops on personal finance management and interactive video training, was fully implemented and by the end of 2020, 500 workshops were held which were attended by more than 8,000 citizens. As much as 85% of participants said that the workshop has encouraged them to adopt good financial habits.

However, due to special circumstances, the lockdown and recommended epidemiological measures which spanned the entire last year, in-person classes of Schools of Smart Finance were conducted for a short period of time at the beginning of the year. We plan to continue their implementation in 2021 by adjusting the workshop format.

Nonetheless, training videos titled *Personal finance management*, *How to make smarter purchasing decisions*, and *Third pillar in brief* are still available to all those who are interested.

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.

Of course, due to specific circumstances which continued through the whole year 2020, these activities were held in reduced and changed scope.

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 via partnerships with numerous associations, faculties, exhibitions and presentations at fairs, conferences and conventions throughout Croatia. In the year 2020, this cooperation was less intensive than in the previous year due to cancellations of numerous fairs and conferences. The following was successfully realised:

- Participation at the 2020 Career Week organised by the Faculty of Organisation and Informatics in Varaždin (a stand at the 'Career *špancir'*, participation in a panel discussion on business analysis, organizing workshop for students)
- Continuation of the strategic cooperation with selected colleges and universities (for example organising guest expert lectures and workshops for students, professional practical training for students);

The pandemic also impacted the ability to hold professional practical training for students. In 2020, at EBC, only 13 students performed their professional unpaid practical training, which is a requirement for fulfilling their obligations at the university or provides a basic insight into a real business environment in which the student is interested.

Unfortunately, in 2020, EBC's summer student programmes – BizLab (previously General Rehearsal), and ITLab and MathLab (which in the meantime received new format) were not held.
With its student programmes, EBC joined the Youth Initiative as early as 2018, which was launched with the aim of facilitating the inclusion of young people in the labour market. The Youth Initiative was launched by the Croatian Employers' Association and the European Bank for Reconstruction and Development, while EBC wants to bring the possibility of acquiring quality first work experiences and potential further employment even closer to young people.

It is also necessary to mention the segment of non-profit organisations which participated or continue to participate in programmes for novice entrepreneurs which the EBC facilitates, and the work of which it also supports, not only financially, but in various other ways as well, such as by taking part in marketing, promoting their activities on the bank's communication channels etc.

Scholarships

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

In 2020, this programme was not realised due to the epidemiological situation. EBC hopes to continue with the programme when the conditions allow it.

In 2020, the Bank once 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 and will grant scholarships in the monthly amount of HRK 1,600 to three students during the next five years.

In the fall of 2019, the ECB introduced the practice of providing scholarships for secondary school and university students with disabilities within the framework of hiring persons with disabilities within the quota. This practice was continued in the school year 2020/2021 and currently, 23 secondary school and university students receive a regular monthly scholarship. In addition to this, cooperation agreements have been concluded with two protective workshops which mostly hire persons with disabilities on the purchase of marketing materials.

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 company, during 2020, and despite the new circumstances, earthquakes and coronavirus pandemic, EBC has supported numerous cultural, scientific, health, educational, sport, and humanitarian projects in equal scope. In 2020, a total of HRK 14.42 million was awarded through the programme of sponsorships and donations, of which large share of funds was directed to health institutions for the purpose of fighting the coronavirus and providing assistance to victims of the devastating earthquake.

Of the regular sponsorships projects which the ECB has been supporting for many years, most of them were held with adjustments to epidemiological conditions, while a smaller number of events did end up being cancelled due to epidemiological reasons.

Summary of most important initiatives which the bank supported through sponsorships and donations:

- around 180 projects and institutions of humanitarian character
- around 100 projects of educational character
- around 200 sporting clubs, associations and projects
- around 70 projects and institutions of cultural-artistic character

EBC has traditionally remained the general sponsor of projects such as the Rijeka and Samobor Carnival, DOKUart documentary film festival which, along with its regular programme, encourages children and young people from all over Croatia to create their own documentaries and open-air Christmas jazz concert in Bjelovar.

EBC has also supported a series of other cultural events, which contribute to the promotion of local customs, culture and tourism such as the traditional Alka Tournament in Sinj, Museum of the City of Rijeka – the opening ceremony of the Sugar Refinery Palace and other traditional manifestations specific to a certain region or city in Croatia.

Sponsorships and donations (continued)

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. It received over 150 applications from young artists, works of art were purchased within it and exhibited in Erste business premises and branch offices across Croatia, while scholarships were granted to the best young artists. A new feature introduced in 2019 was the opportunity for all authors of the selected works to present and offer for purchase one additional work at a joint exhibition was also continued in 2020, with an additional prize in a new category for best sculpture. Erste fragmenti exhibition was held in September 2020 at the Kuća za ljude i umjetnost Lauba.

As part of activities aimed at supporting the social community through donations and sponsorships, the Bank supported the education of young paediatric surgeons at the Children’s Hospital Zagreb (Klaićeva), supported the Special Hospital for Chronic Diseases of Children in Gornja Bistra, the Children’s Home Nazorova, and the SOS Children’s Village for children without parental care. With regard to the donations to fight the coronavirus, EBC supported the Dr. Fran Mihaljević Hospital for Infectious Diseases in Zagreb, Andrija Štampar Teaching Institute of Public Health, Bjelovar General Hospital, Koprivnica General Hospital, Special Hospital for Orthopaedics Biograd and Zadar General Hospital.

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

Knowledge is one of the drivers of creation, progress and growth. Therefore, through donor and sponsorship activities, EBC strives to include as many initiatives, associations, manifestations and events that deal with educational activities as possible. For this purpose, EBC cooperates with various faculties and schools, such as the Faculty of Economics and Business Zagreb and Rijeka, the Bjelovar University of Applied Sciences and the Centre for Student Support and Career Development at the Faculty of Organisation and Informatics Varaždin.

In addition, 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 Plava Liga and Erste rukometna liga Dalmacije (Handball League of Dalmatia) which were, as of 2020, unified into the children sports platform named Ersta prva liga.

Erste Plava liga is a project intended for all students in grades 3 to 6 of primary schools in Croatia and is designed to help children develop an athletic spirit and to encourage them to play sports.

Despite the specific circumstances, the ninth season of the competition was held last year, and the campaign “60 minuta KRENI” included famous athletes, coaches, educational workers and institutions with the aim of providing a contribution and raising equal opportunities and conditions for doing daily sixty-minute physical activity for interested children. The competitions were held in a total of nine cities (Rijeka, Zagreb, Osijek, Makarska, Zadar, Pula, Knin and Vukovar and Čakovec) with a total of 1,393 children participating.

The Erste Handball League is a unique children’s handball league intended for primary school students enrolled in grades 2 to 7. By organising this league, EBC wants to show that everyone needs physical activity to grow up healthy and happy and enable children to take part in competitions, socialize and have fun while doing it. World-renowned handball players Ivano Balić and Petar Metličić, together with their handball club, are involved with 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 third season of Erste Handball League, which was played despite special circumstances due to coronavirus, competitions were held in eight cities with a total of nine tournaments (Split, Zadar, Šibenik, Dubrovnik, Labin, Poreč, Umag and Pula and finals in Split) and a total of 2,375 children participated.

Sponsorships and donations (continued)

Through sports sponsorships, EBC traditionally supports the Croatian Table Tennis Association, the Erste Beach Volleyball Club Zagreb, the Primorje Rijeka Water Polo Club, the Croatian Olympic Committee, the traditional Fiumanka sailing regatta in Kvarner, with more than 200 sailboats participating, and a number of other regional clubs to promote different types sports and sports activities among the young generations of athletes. EBC also supported charity runs – the Terry FOX run which was held in 2020 but with adjustments due to present circumstances.

Initiatives launched by various sectors of the Bank should also need to be noted. Since 2013, the Bank has had the HOPE donation fund which collects employee donations that go towards helping orphaned children that live in children's homes across Croatia. Employees are free to choose whether they will donate and how much, and can opt for a one-time donation or set up regular monthly donations via an 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. After the devastating earthquake which hit Zagreb in March 2020, more than HRK 94,000 was collected in employee donations which were paid as financial aid to colleagues whose real property was damaged in the earthquake. In addition to these donations, the Bank paid an additional aid and thus became actively engaged in helping its employees. Internal donation campaign was also started at the end of 2020 for colleagues affected by an even stronger earthquake which hit Sisak-Moslavina County.

There is also the AZIL initiative, a cashiers' solidarity fund, i.e., a special purpose and completely 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 only employees employed as cashiers, treasure cashiers, employees working at the cash register benefit from the fund.

The membership fee is HRK 15 a month for cashiers and is collected from members' salaries, while other members that join the fund donate any amount they want, which they specify upon joining a membership application created specifically for this purpose.

Last year, EBC once again supported and actively participated in the project of the international Erste Group entitled Kontakt. The Art Collection of Erste Group and ERSTE Foundation. The collection was founded in 2004 and includes more than 940 works of art made by 139 artists/artist groups from 20 countries, focusing on Eastern, South-Eastern and Central Europe. 112 of these works are by 18 Croatian artists. The collection is complemented with new works of art every year.

Humanitarian campaigns

Erste challenge

For the third consecutive year, as part of the campaign that lasted from January to December 2020, the employees of the entire EBC Group in Croatia undertook to reach a mileage target by engaging in a sport or recreational activity with the aim of securing a humanitarian donation. Last year, the target distance was set at 120,000 kilometres. Due to the unforeseen circumstances, lockdown and special epidemiological measures which were in force throughout the year, activities included in the humanitarian donation were expanded to include some activities at home. At the end of the year, more than 160 kilometres where reached, and HRK 20,000 donation was distributed to three associations: Veliko srce malom srcu, Udruga NEVEN, Đakovo and Udruga Sv. Vinko Paulskog in the Republic of Croatia.

Corporate volunteering – “Pay It Forward”

Corporate volunteering is more than a one-off campaign at the Bank level. It is a process of volunteering and providing help by setting aside the employees’ time to help others. For the employer to further encourage employees, the possibility of volunteering during working hours has been introduced for all employees interested in being included. They can use one working day per year for this during their working hours. This was the third consecutive year in which employees were allowed to carry out corporate volunteering activities during their working hours, as individuals or in groups.

Humanitarian campaigns (continued)

Through various projects throughout the year, employees helped and acted 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.

Last year was marked by several individual and one group volunteer actions due to the already mentioned reasons caused by the epidemic. Volunteer work was performed:

- within the scope of Business Skills Academy (workshop on sales skills)
- cleaning Mljet coves (ecological actions)
- Centre for Culture of Dialogue Rijeka (development assistance to children from families of a lower socio-economic status)

Volunteer actions were carried out in such a way that employees were informed about the possibilities of volunteering via intranet or the employees themselves found such opportunities in their surroundings, in their environment, and sometimes the Human Resource Department provided assistance in organising volunteering which then proposed the place for volunteering and assisted in taking care of everything that is necessary to do the volunteer work. The number of days of volunteer work in 2020 was 13 days during working hours, which is considerably less compared to the previous year, due to the aforementioned reasons.

Since 2015, EBC has been a signatory to the Charter Recognising Competences Acquired by Volunteering, and since last year the Bank has been a signatory to the Corporate Volunteering Charter. The best acknowledgement of the efforts and engagement of numerous Erste volunteers is the many thanks from various institutions and associations received in 2020.

Happy Hour

Employees of the Bank, but also of other affiliated companies, regularly, on an annual level, organise campaigns of selling cakes and other sweet or salty products (made by themselves) and thus raise funds that they donate to associations or individuals in difficult life circumstances. Unfortunately, due to epidemiological circumstances, campaigns of this type were suspended in 2020 but they will again be organised as soon as the circumstances allow it.

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 evidenced by numerous summits, agreements and initiatives of the world's leading powers in order to reach the best possible solution through unification. The Paris Agreement, signed in 2016, is just one of the examples – it was agreed that all countries would work on preventing the global temperature in the coming years from growing by more than 2°C.

Due to the nature of their business, banks and other financial institutions do not have too much of an environmental impact, but Erste Bank still strives for the best possible business processes and environmentally sustainable operations. When designing branch offices, but also in their day-to-day work and in communication with clients, they strive to achieve the highest possible environmental standards.

Managing environmental impacts

In 2017, EBC adopted an Environmental Policy that aims to contribute to the community in which it 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

In 2020, a new Environmental Policy was adopted which sets out a framework for the continuation of work on the objectives that were set out in the previous Policy adopted in 2017.

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 would enable more advanced monitoring of electricity consumption and its rational use in the coming years, which should ultimately result in savings.

The active involvement of our employees is crucial for achieving these goals. In this regard, EBC educates all employees on rational energy saving and paper consumption, on proper waste separation, and educate systematically on the ISO 14001:2015 standard, with all its elements and goals. From the beginning of 2020, education on environmental protection and rational use of energy is mandatory for all new employees.

As was the case in the previous years, a yearly external audit was performed by a licenced certification company in 2020 too, to check the functioning of the Environmental Management System according to 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 affiliates (Erste Card Club, Erste Leasing and Erste Bank A.D. Podgorica) have done the same successfully.

The Strategic Environmental Objectives for the period 2020 to the end of 2021 were also set last year. Compared to the reference year 2018, they are:

- Reduction in electricity consumption by 12% (2018: 4,363 kWh/FTE)
- Reduction in heat consumption by 7% (2018: 1,657 kWh/FTE)
- Reduction in photocopier paper consumption 13% (2018: 16.84 reams A4/ FTE)

Based on the Strategic Objectives, the Operational Objectives for 2020 were also defined and largely realised:

- Electricity consumption per FTE was kept on the 2018 level (4,363 kWh/FTE), i.e. save from 0 to 4%
- Heat consumption was increased (thermal energy that also includes gas) per FTE on the 2018 level (1,657 kWh/FTE).
- Photocopier paper consumption was reduced per FTE compared to the 2018 level (16.84 reams A4/ FTE) by 39%

Energy

People need energy for everyday life – both of an individual 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, all aspects of environmentally friendly and sustainable business are taken into account, using software and technical solutions to optimise energy consumption, regularly maintain equipment to increase its durability and reduce waste, use 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. For example, for clients who buy, build or renovate properties with A+, A, B, or C energy the Bank grades a lower interest rate than for regular housing loans. In addition, the Bank cooperates with local and international financial institutions to offer more favourable financing conditions for projects in the private and public sectors, including energy efficiency and renewable energy projects. With more favourable financing conditions, the Bank wants to further stimulate investments in segments that contribute to increasing environmental awareness, efficiency and sustainability.

As part of Erste Group, EBC is committed to providing financial services in the energy sector because it believes that electricity supply is the key element for economic and social development, especially when it comes to Central and Eastern Europe. At the same time, this part shows the need for reasonable management of environmental and social impacts and better management of environmental risks. This is precisely why guidelines have been provided in the corporate finance section of Erste Group for the purpose of applying the sustainability principle and regulating the participation of Erste Group in this industry.

In 2020, the installation of sun protection foils was continued. Apart from providing much better working conditions for employees in summer, they reduce electricity consumption for air conditioning and lighting. Last year, foils were installed on glazed surfaces at four branch offices.

The Bank constantly controls and works to reduce energy consumption, and in order to do this more efficiently, it requires the education of all employees and users of the premises, which was carried out throughout the year. In 2020, education on environmental protection and rational use of energy became mandatory for all new employees.

In 2020, the consumption of all energy sources decreased, which can be partly attributed to the coronavirus pandemic and increased demand for work-from-home from employees. Thus, this effect is most pronounced in fuel consumption for official vehicles, which decreased by 40.6% compared to 2019. Electricity consumption decreased by 0.25% compared to the reference year 2018.

It should be noted that it is not realistic to expect more significant reductions, despite the measures for rational use and saving of energy, which are implemented by the employees. The reason for this is the modernisation of branch offices with new 24-hour zones with a greater number of self-service devices and other equipment (new consumers) which have a significant impact on the consumption of electricity, and the replacement of old equipment with new is evident by the quantity of disposed equipment powered by electricity. Also, in 2020, a new ECB facility in Bjelovar was put into operation which houses a processing segment of the ECB. Thermal energy consumption was increased by 5.48%.

Emissions

It has been scientifically proven that the increase in global temperatures by more than 2°C also increases the risk of irreversible and catastrophic consequences for the planet. Global warming leads to extreme weather phenomena, such as floods, droughts, unmanageable forest fires, heavy rains and heat waves, all of which people could already notice, if not locally, then certainly globally.

In 2020, EBC continued to use electricity that is 100% from renewable sources, which means that in addition to maintaining low CO_2 emission levels, EBC contributed i.e. participated in the realisation of national energy efficiency projects through the ZelEN fund.

CO_2 emissions at the Erste Group level are monitored in all member states and are calculated using the data on energy consumption and consumption of photocopier paper. EBC continues to record a constant decline in CO_2 emissions:

Table 9: CO2 emission

	2018	2019	2020
tCO2e	2,476	2,251	1,936

Waste separation and reduction of unselected municipal waste

It has been identified that the Bank generates the most waste in the area of paper consumption. Therefore, ecological, recycled printing paper is used throughout Erste Bank in Croatia, and this is planned in the future too. Also, due to the environmental aspect, but also easier use, the Bank's clients are encouraged to do business online as much as possible. Therefore, digital submission of applications for the Bank's products is provided, and the General Terms and Conditions are available in the branches 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 the home address, 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 to save paper.

The Bank constantly controls and works to reduce the consumption of photocopier paper at the Bank level, and trainings have been organised for this purpose. Compared to 2019, the reduction in consumption was significant (23%), and in 2020, this reduction is even more pronounced amounting to nearly 40%. But it should be noted that the coronavirus pandemic and lockdown which in part of March and April causes a significant increase in work from home had an impact on the reduction of consumption.

Table 10: Consumption of photocopier paper

	2018	2019	2020
Ream/FTE	16.84	14.35	11.18

In order to reduce the negative impact on the environment in the future and further reduce the amount of unselected municipal waste, the use of linen towels was introduced in late 2018 instead of paper towels for wiping hands in sanitary facilities. As part of this, employee education was organised. In 2019, a significant financial saving of nearly 30% (27.81%) was achieved and this also eliminated the largest amount of unselected waste by volume that the Bank produces. However, last year, these trends were upended, and there was an increase in unselected waste, mostly due to the paper towels being used again.

Waste separation and reduction of unselected municipal waste (continued)

Also, in 2018, tanks for the selective separation of waste were installed throughout the entire Croatian business network, and as a result, prescribed procedures were introduced and employee education was carried out. In addition to paper, plastic, metal and glass being separated, storage tanks for waste batteries have been set up in administrative buildings in Zagreb, Rijeka and Bjelovar. It should be noted that the Republic of Croatia has unfortunately not yet introduced a system for collection of disposed waste based on volume or weight, therefore data on quantities of certain types of disposed waste are not available. However, special categories of waste disposal are registered, so there is data that EBC disposed of 21 tonnes of bulk waste in 2020, more than 50 tonnes of electrical waste, 400 kg of metal and 30 kg of waste batteries.

Other activities

A few years ago, the Bank started the praiseworthy “Project for PET”, which was previously launched at the initiative of the employees. This is a project of organised collection of plastic packaging 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 bottles from beverages, which are taken by users of the association for recycling, and the raised funds are used for financing a part of their needs. By organising the collection of plastic packaging, EBC shows double support for the community in which it operates. In addition to recycling large quantities of plastic bottles, which is in itself an environmentally beneficial act, the Bank helps launch an entrepreneurial activity for the socially disadvantaged population – people with intellectual disabilities who are otherwise hard-to-employ. In addition, the reduction of the amount of plastic waste in the form of PET water bottles at the level of the entire bank network is achieved 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 is thus not in plastic packaging. Additionally, buying more glass cups in kitchenettes aims to reduce the use of disposable plastic water cups, at least as far as our employees are concerned.

Also, in the office buildings in Zagreb, Rijeka and Bjelovar, Erste Bank organised an ecological-humanitarian project of collecting plastic caps from PET bottles for the need of raising funds for the Association of Leukaemia and Lymphoma Patients of the Republic of Croatia. This type of campaign has also been carried out in the Erste Card Club.

When designing branch offices according to the new concept of a service model, which, in addition to the mode of operation, includes the visual identity of ECB, green walls made of living plants are standardly installed, which have proved to be extremely beneficial for the pleasant work of our employees and their coexistence with nature. In addition to the office building at Ivana Lučića Street in Zagreb, green walls have been installed in branches in Pula, Makarska and Zagreb (Masarykova Street and Avenija Dubrovnik), Zadar, Šibenik, Vinkovci, and Viškovo.

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

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 90% of suppliers have undergone ethical certification in accordance with EGP 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. For example, at the end of each year, Erste Group orders holiday cards from SOS Children's Village Croatia, and not from commercial suppliers, and thus encourages responsible business within the society and the community.

GRI Content Index

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Reference to Annual Report 2020	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	78	Annual report: General information
GRI 102	General Disclosures	102-3	Location of headquarters	78	Rijeka, Jadranski trg 3a, Republic of Croatia
GRI 102	General Disclosures	102-4	Location of operations	78	General information
GRI 102	General Disclosures	102-5	Ownership	79	General information
GRI 102	General Disclosures	102-6	Markets served	79	General information
GRI 102	General Disclosures	102-8	Information on employees	34	Non-financial report: Employees
GRI 102	General Disclosures	102-9	Suppliers	55	Non-financial report: Suppliers
GRI 102	General Disclosures	102-10	Changes in the supply chain	55	No significant changes
GRI 102	General Disclosures	102-11	Precautionary principles	28	Non-financial report: Code of Conduct of the ESB Group; Statement of Purpose
GRI 102	General Disclosures	102-12	External initiatives	28, 51	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	5	Report of the Chairman of the Management Board
GRI 102	General Disclosures	102-15	Key impacts, risks and opportunities	27	Non-financial report: Materiality analysis
3. Ethics and integrity					
GRI 102	General Disclosures	102-16	Values, principles, standards, and norms of behaviour	35	Non-financial report: Employees
4. Governance					
GRI 102	General Disclosures	102-18	Governance structure	60	General information: Supervisory Board, Management Board
5. Stakeholders					
GRI 102	General Disclosures	102-40	List of stakeholders	27	Non-financial report: materiality analysis
GRI 102	General Disclosures	102-41	Collective bargaining agreements	34	Non-financial report: Employees
GRI 102	General Disclosures	102-42	Identifying stakeholders	27	Non-financial report: Materiality analysis
GRI 102	General Disclosures	102-43	Approach to stakeholder engagement	27 at seq.	Non-financial report: Materiality analysis
GRI 102	General Disclosures	102-44	Key topics and concerns	27	Non-financial report: Materiality analysis

GRI Content Index (continued)

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Reference to Annual Report 2020	Comment/Reason for ommission
6. Reporting practice					
GRI 102	General Disclosures	102-46	Defining report content	25	Non-financial report: Materiality analysis
GRI 102	General Disclosures	102-47	List of material topics	27	Non-financial report: Materiality analysis
GRI 102	General Disclosures	102-49	Changes in reporting	27	2020 reporting complies with GRI standards (core option)
GRI 102	General Disclosures	102-50	Reporting period	4	From 1.1.2020. to 31.12.2020.
GRI 102	General Disclosures	102-51	Date of most recent report	n.a.	Annual report for the year ending on 31.12.2019.
GRI 102	General Disclosures	102-52	Reporting cycle	4	Annual
GRI 102	General Disclosures	102-54	Claims of reporting in accordance with GRI standards	25	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	56	Non-financial report
GRI 103 Management Approach 2016					
GRI 103	Management Approach	103-1	Explanation of the material topics	25	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	28	Non-financial report: Anti-corruption. There were no confirmed incidents of corruption in 2020
Material topic: Energy (GRI 302 Energy 2016)					
GRI 302	Energy	302-4	Energy consumption	52	Non-financial report: Energy
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	55	Non-financial report: Suppliers
Material topic: Health and work-life balance (GRI 401 Employment 2016)					
GRI 401	Employees	401-1	New employees	43	Non-financial report: Employees. Total number of new employees: 141; Fluctuation: 230
GRI 401	Employees	401-3	Parental leave	43	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	39	Non-financial report: Employees. Women: 38 hours; men: 36 hours
Material topic: Diversity and equality (GRI 405 Diversity and Equal Opprotunity 2016)					
GRI 405	Diversity of managerial bodies and employees	405-1	Structure of managerial bodies and employees	34	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.	There were no incidents of discrimination recorded in 2020
Material topic: Customer satisfaction					
Information on customer satisfaction				32	Non-financial report: Clients
Material topic: Financial literacy					
Information on activities implemented in the area of raising financial literacy				45-46	Non-financial report: Society

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 29, 2020 the Bank held its regular General Meeting at which a Decision on Profit Distribution for the year 2019 was made. Net profit for year 2019 amounts HRK 752,533,902.81 and it was distributed in the retained earnings in the amount of HRK 752,533,902.81.

Corporate Governance Statement (continued)

Decisions on granting discharge to the Management Board and Supervisory Board members and Decision on suitability assessment of the candidates for the Supervisory Board were adopted. Decisions were also taken on amendments to the Articles of Associations of the Bank and a Decision on Approving transfer of part of other comprehensive income to Retained earnings of the Bank based on reclassification of Series C Preferred Stock of Visa Inc. in amount of HRK 14,021,070.65.

Besides regular General Meeting in 2020, the Bank held three extraordinary General Meetings as well.

At extraordinary General Meeting held on February 20, 2020, Decision on suitability assessment of the candidate for the Supervisory Board and Decision on election of the Supervisory Board's member was made.

At extraordinary General Meeting held on July 23, 2020, PricewaterhouseCoopers d.o.o. was appointed as the Bank's auditor for 2020. Decision was made on approving distribution of net profit brought forward from the company Erste Factoring d.o.o. that was merged with the Bank in accordance with the Agreement of merger as of March 5, 2020, in the amount of HRK 8,136,878.54, which is distributed to the Bank's retained earnings.

At extraordinary General Meeting held on November 30 2020, Decision on amendments of Suitability Policy was made.
The rules on the appointment and recall of the members of the Management Board and the Supervisory Board and their authorizations, as well as the data on the composition and operations of the Management Board, the Supervisory Board and relevant assistant bodies have been regulated by the Principles.

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. The Management Board has 6 (six) 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,
_ Slađana Jagar, Member of the Management Board until 31 December 2019,
_ Borislav Centner, Member 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 from 01 January 2020,
_ Hannes Frotzbacher, Member of the Management Board from 01 February 2020.

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,
_ Hannes Frotzbacher, Member of the Supervisory Board until 31 December 2019,
_ 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 from 07 May 2020.

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
_ Hannes Frotzbacher, Member until 31 December 2019
_ Judit Ágnes Havasi, Member
_ Roland Klimesch, Member

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

Nomination Committee:
_ Willibald Cernko, President
_ Judit Ágnes Havasi, Member
_ Georg Bucher, Member

Credit Committee:
_ Willibald Cernko President
_ Hannes Frotzbacher, President until 31 December 2019
_ Nikolai Leo de Arnoldi, Member
_ Walburga Seidl, Member
_ Roland Klimesch, Member

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

Financial Statements for the year ended 31 December 2020

Erste&Steiermärkische Bank d.d.

Responsibility for the Financial Statements

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that unconsolidated 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.

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

Krešimir Barić
Member

Martin Hornig
Member

Borislav Centner
Member

Zdenko Matak
Member

Hannes Frotzbacher
Member

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

24 March 2021

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 2020, 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 17 March 2021.

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 2020;
- the separate and consolidated statements of other comprehensive income for the year ended 31 December 2020;
- the separate and consolidated statements of financial position as of 31 December 2020;
- 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 then ended; 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

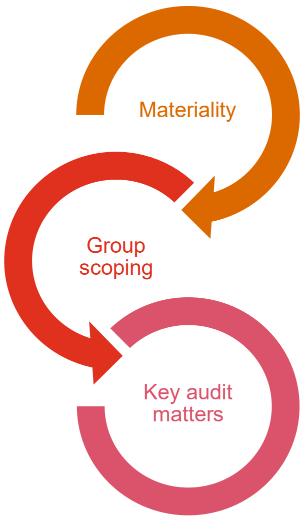
We are independent of the Bank and the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities 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 2020 to 31 December 2020, are disclosed in Note 41 to the separate and consolidated financial statements.

Our audit approach

Overview



- Overall Bank materiality: HRK 42 million, which represents 5% of the three-year average of the pre-tax result in the separate financial statements for years 2018 - 2020 adjusted for a non-recurring item of HRK 187 million, which represents the amount of the additional provision for litigations recorded in 2019.
- Overall Group materiality: HRK 53 million, which represents 5% of the three-year average of the pre-tax result in the consolidated financial statements for years 2018 - 2020 adjusted for a non-recurring item of HRK 187 million, which represents the amount of the additional provision for litigations recorded in 2019.

- We conducted audit work for 5 reporting units in 2 countries.
- Our audit scope addressed 99% of the Group's interest income and 97% 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 42 million The Group: HRK 53 million
How we determined it	The Bank and the Group: 5 % of the three-year average of the pre-tax result for years 2018 - 2020 adjusted for a non-recurring item of HRK 187 million, which represents the amount of the additional provision for litigations recorded in 2019.
Rationale for the materiality benchmark applied	We chose the three-year average pre-tax result for the Bank and the Group, as the goal of the Bank and the Group is to achieve profits and the users of the financial statements focus on this performance measure. The Covid-19 pandemic has a significant impact on the profitability of the Bank and the Group and therefore we have eliminated the consequential high volatility of materiality using the three-year average. We adjusted it for non-recurring items in order to achieve comparability with the materiality of the Bank and the Group.

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 15 *Financial assets at amortized costs* and note 28.4 *Credit risk* to the financial statements for detailed information on the expected credit loss ("ECL") for loans and advances to customers. As at 31 December 2020, the Bank and Group had credit loss allowances for loans and advances at amortised cost to customers of HRK 2.8 billion and HRK 3.1 billion, 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.	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 Covid 19 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.

Key audit matter	How our audit addressed the key audit matter
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. 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). In 2020, due to the Covid 19 pandemic, the Bank and the Group approved moratoria for the loans repayment to the customers which, together with the impact that Covid 19 pandemic on the general market and macroeconomic forecasts have significantly influenced the key assumptions made by the management in estimating the ECL.	• 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 Covid 19 pandemic. • We tested, on a sample basis, moratoria approvals and staging of exposures under the moratoria. • 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 Covid 19 pandemic, 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 2020, the Bank and the Group recorded provisions for litigation cases related to loans originally issued in or indexed to Swiss Francs ("CHF"). Note 35 Provisions c) Sundry 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. 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 and Corporate Governance Statement, 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 and Corporate Governance Statement, 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, and whether the Corporate Governance Statement includes the information specified in Article 22 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.

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 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate and 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 23 July 2020, representing a total period of uninterrupted engagement appointment of 4 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), "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 2020, Statements of financial position of the Bank and the Group as at 31 December 2020, 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 72 to 265, adjusted for the purposes of the Decision.

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 2021

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 2020

Statement of Profit or Loss

in HRK million		GROUP		BANK	
	Notes	2019	2020	2019	2020
Net interest income	2	2,046	2,025	1,613	1,617
Interest income		2,232	2,152	1,836	1,785
Other similar income		169	161	67	59
Interest expense		(280)	(224)	(217)	(166)
Other similar expenses		(75)	(64)	(73)	(61)
Net fee and commission income	3	803	694	504	433
Fee and commission income		1,057	925	690	597
Fee and commission expenses		(254)	(231)	(186)	(164)
Dividend income	4	1	1	69	11
Net trading and fair value result	5	234	211	228	211
Gains/losses from financial instruments measured at fair value through profit or loss	6	4	(14)	3	(18)
Net result from equity method investments		9	8	-	-
Rental income from investment properties & other operating leases	7	95	86	-	5
Personnel expenses	8	(747)	(718)	(538)	(522)
Other administrative expenses	8	(660)	(648)	(496)	(487)
Depreciation and amortisation	8	(248)	(251)	(114)	(131)
Gains/losses from derecognition of financial assets measured at amortised cost	9	-	(1)	-	(1)
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	10	1	-	-	-
Impairment result from financial instruments	11	(43)	(785)	(72)	(627)
Other operating result	12	(284)	(126)	(278)	(107)
Other operating income		56	20	46	19
Other operating expenses		(340)	(146)	(324)	(126)
Pre-tax result for the period		**1,211**	**482**	**919**	**384**
Income tax	13	(229)	(10)	(166)	6
Net result for the period		**982**	**472**	**753**	**390**
Net result attributable to non-controlling interests		20	12	-	-
Net result attributable to owners of the parent		**962**	**460**	**-**	**-**

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	
	2019	2020
Net result for the period	982	472
Profit or loss attributable to ordinary shareholders	962	460
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)	**56.66**	**27.09**

I. Statement of Comprehensive Income for the Year ended 31 December 2020 (continued)

Statement of Other Comprehensive Income

in HRK million	GROUP		BANK	
	2019	2020	2019	2020
Net result for the period	**982**	**472**	**753**	**390**
Other comprehensive income				
Items that may not be reclassified to profit or loss				
Remeasurement of net liability of defined pension plans	(1)	-	-	-
Fair value reserve of equity instruments	51	2	45	1
Own credit risk reserve	-	-	-	-
Income taxes relating to items that may not be reclassified	(9)	-	(8)	-
Total	**41**	**2**	**37**	**1**
Items that may be reclassified to profit or loss				
Fair value reserve of debt instruments	99	32	88	50
Gain/(loss) during the period	101	(5)	90	13
Reclassification adjustments	(1)	-	-	-
Credit loss allowances	(1)	37	(2)	37
Currency translation	2	8	-	-
Gain/(loss) during the period	2	8	-	-
Reclassification adjustments	-	-	-	-
Income taxes relating to items that may be reclassified	(16)	(7)	(16)	(9)
Gain/(loss) during the period	(16)	(7)	(16)	(9)
Reclassification adjustments	-	-	-	-
Total	**85**	**33**	**72**	**41**
Total other comprehensive income	**126**	**35**	**109**	**42**
Total comprehensive income	**1,108**	**507**	**862**	**432**
Total comprehensive income attributable to non-controlling interests	20	12	-	-
Total comprehensive income attributable to owners of the parent	**1,088**	**495**	**-**	**-**

II. Statement of Financial Position as at 31 December 2020

in HRK million	Notes	GROUP 31 December 2019	GROUP 31 December 2020	BANK 31 December 2019	BANK 31 December 2020
Assets					
Cash and cash balances	14	5,105	8,673	4,339	7,947
Financial assets – held for trading		225	162	226	162
Derivatives	19	39	118	40	118
Other trading assets	20	186	44	186	44
Non-trading financial assets at fair value through profit or loss		199	188	25	69
Equity instruments	21	16	36	10	36
Debt securities	21	183	152	15	33
Financial assets at fair value through other comprehensive income		10,604	11,278	9,961	10,704
Pledged as collateral	26	816	85	421	-
Equity instruments	22	162	130	147	114
Debt securities	22	10,442	11,148	9,814	10,590
Financial assets at amortised cost		51,295	56,154	46,817	51,322
Pledged as collateral	26	25	816	25	816
Debt securities	15	1,642	2,361	1,464	2,180
Loans and advances to banks	15	4,367	4,041	4,260	3,968
Loans and advances to customers	15	45,286	49,752	41,093	45,174
Finance lease receivables	32	2,453	2,460	-	-
Property and equipment	29	1,311	1,236	803	810
Investment properties	29	33	5	3	2
Intangible assets	30	376	390	121	135
Investments in subsidiaries	38	-	-	989	891
Investments in associates	39	58	59	38	38
Current tax assets	13	12	123	-	112
Deferred tax assets	13	187	197	75	110
Trade and other receivables	17	1,537	1,143	188	596
Other assets	31	471	401	356	318
Total assets		**73,866**	**82,469**	**63,941**	**73,216**
Liabilities and equity					
Financial liabilities – held for trading		36	106	36	106
Derivatives	19	36	106	36	106
Financial liabilities measured at amortised cost		62,690	70,636	54,529	63,302
Deposits from banks	18	9,814	9,048	5,275	5,209
Deposits from customers	18	51,325	60,128	48,455	57,253
Debt securities issued	18	672	677	672	677
Other financial liabilities	18	879	783	127	163
Lease liabilities	32	98	102	105	102
Provisions	36	494	582	453	545
Current tax liabilities	13	24	6	8	-
Deferred tax liabilities	13	5	4	-	-
Other liabilities	34	641	649	427	424
Total liabilities		**63,988**	**72,085**	**55,558**	**64,479**
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		5,756	6,231	4,485	4,811
Other reserves		350	371	314	342
Equity attributable to owners of the parent		9,690	10,186	8,383	8,737
Equity attributable to non-controlling interests	38	188	198	-	-
Total equity	**37**	**9,878**	**10,384**	**8,383**	**8,737**
Total liabilities and equity		**73,866**	**82,469**	**63,941**	**73,216**

III. Statement of Changes in Equity

	Subscribed capital	Additional paid-in capital	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
										GROUP
As of 1 January 2020	**1,698**	**1,886**	**5,756**	**432**	**(7)**	**-**	**(75)**	**9,690**	**188**	**9,878**
Dividends paid	-	-	-	-	-	-	-	-	(2)	(2)
Reclassification from other comprehensive income to retained earnings	-	-	14	(14)	-	-	-	-	-	-
Other changes	-	-	1	-	-	-	-	1	-	1
Total comprehensive income	**-**	**-**	**460**	**34**	**8**	**-**	**(7)**	**495**	**12**	**507**
Net result for the period	-	-	460	-	-	-	-	460	12	472
Other comprehensive income	-	-	-	34	8	-	(7)	35	-	35
Change from remeasurement of defined benefit plans	-	-	-	-	-	-	-	-	-	-
Change in fair value reserve	-	-	-	34	-	-	(7)	27	-	27
Change in currency translation reserve	-	-	-	-	8	-	-	8	-	8
As of 31 December 2020	**1,698**	**1,886**	**6,231**	**452**	**1**	**-**	**(82)**	**10,186**	**198**	**10,384**
As of 1 January 2019	**1,698**	**1,887**	**5,083**	**281**	**(9)**	**1**	**(50)**	**8,891**	**170**	**9,061**
Dividends paid	-	-	(289)	-	-	-	-	(289)	(2)	(291)
Reclassification from other comprehensive income to retained earnings	-	-	(1)	1	-	-	-	-	-	-
Other changes	-	(1)	1	-	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**962**	**150**	**2**	**(1)**	**(25)**	**1,088**	**20**	**1,108**
Net result for the period	-	-	962	-	-	-	-	962	20	982
Other comprehensive income	-	-	-	150	2	(1)	(25)	126	-	126
Change from remeasurement of defined benefit plans	-	-	-	-	-	(1)	-	(1)	-	(1)
Change in fair value reserve	-	-	-	150	-	-	(25)	125	-	125
Change in currency translation reserve	-	-	-	-	2	-	-	2	-	2
As of 31 December 2019	**1,698**	**1,886**	**5,756**	**432**	**(7)**	**-**	**(75)**	**9,690**	**188**	**9,878**

III. Statement of Changes in Equity (continued)

	Subscribed capital	Additional paid-in capital	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
										BANK
As of 1 January 2020	**1,698**	**1,886**	**4,485**	**381**	**-**	**2**	**(69)**	**8,383**	**-**	**8,383**
Dividends paid	-	-	-	-	-	-	-	-	-	-
Reclassification from other comprehensive income to retained earnings	-	-	14	(14)	-	-	-	-	-	-
Other changes (Note: Scope of consolidation)	-	-	(78)	-	-	-	-	(78)	-	(78)
Total comprehensive income	**-**	**-**	**390**	**51**	**-**	**-**	**(9)**	**432**	**-**	**432**
Net result for the period	-	-	390	-	-	-	-	390	-	390
Other comprehensive income	-	-	-	51	-	-	(9)	42	-	42
Change from remeasurement of defined benefit plans	-	-	-	-	-	-	-	-	-	-
Change in fair value reserve	-	-	-	51	-	-	(9)	42	-	42
As of 31 December 2020	**1,698**	**1,886**	**4,811**	**418**	**-**	**2**	**(78)**	**8,737**	**-**	**8,737**
As of 1 January 2019	**1,698**	**1,887**	**4,021**	**247**	**-**	**2**	**(45)**	**7,810**	**-**	**7,810**
Dividends paid	-	-	(289)	-	-	-	-	(289)	-	(289)
Reclassification from other comprehensive income to retained earnings	-	-	(1)	1	-	-	-	-	-	-
Other changes	-	(1)	1	-	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**753**	**133**	**-**	**-**	**(24)**	**862**	**-**	**862**
Net result for the period	-	-	753	-	-	-	-	753	-	753
Other comprehensive income	-	-	-	133	-	-	(24)	109	-	109
Change from remeasurement of defined benefit plans	-	-	-	-	-	-	-	-	-	-
Change in fair value reserve	-	-	-	133	-	-	(24)	109	-	109
As of 31 December 2019	**1,698**	**1,886**	**4,485**	**381**	**-**	**2**	**(69)**	**8,383**	**-**	**8,383**

IV. Statement of Cash Flow for the year ended 31 December 2020

in HRK million	GROUP		BANK	
	2019	2020	2019	2020
Net result for the period	**982**	**472**	**753**	**390**
Non-cash adjustments for items in net profit/loss for the year				
Depreciation, amortisation, impairment and reversal of impairment, revaluation of assets	268	253	125	132
Allocation to and release of provisions (including risk provisions)	321	861	346	712
Gains/(losses) from the sale of assets	(11)	8	(11)	(1)
Income tax expense/(income)	229	10	166	(6)
Other adjustments	2	(2)	-	-
Changes in assets and liabilities from operating activities after adjustment for non-cash components	**809**	**1,130**	**626**	**837**
Financial assets – held for trading	59	142	59	142
Non-trading financial assets at fair value through profit or loss				
Equity instruments	(5)	1	(2)	1
Debt securities	(29)	45	(1)	18
Financial assets at fair value through other comprehensive income: debt securities	(3,805)	(751)	(3,803)	(802)
Financial assets at amortised cost				
Debt securities	(369)	(719)	(444)	(716)
Loans and advances to banks	651	323	839	297
Loans and advances to customers	(2,192)	(4,714)	(1,206)	(4,519)
Finance lease receivables	(372)	(7)	-	-
Derivatives	3	(9)	4	(9)
Other assets from operating activities	(238)	(89)	(188)	(100)
Financial liabilities measured at amortised cost				
Deposits from banks	883	(759)	193	(763)
Deposits from customers	2,128	8,803	1,472	8,799
Debt securities issued	2	5	2	5
Other financial liabilities	24	(88)	(41)	24
Other liabilities from operating activities	9	(46)	(15)	(75)
Cash flow from operating activities	**(1,460)**	**3,739**	**(1,752)**	**3,529**
Proceeds from disposal				
Financial assets at fair value through other comprehensive income: equity instruments	-	-	-	-
Property and equipment, intangible assets and investment properties	67	73	20	3
Acquisition of				
Financial assets at fair value through other comprehensive income: equity instruments	-	-	-	-
Property and equipment, intangible assets and investment properties	(299)	(225)	(159)	(115)
Merger of subsidiary (net of cash and cash equivalents acquired) (Note: Scope of consolduation)	-	-	-	222
Investments in associates	-	-	-	-
Disposal of subsidiaries	-	5	-	-
Cash flow from investing activities	**(232)**	**(147)**	**(139)**	**110**
Dividends paid to equity holders of the parent	(289)	-	(289)	-
Dividends paid to non-controlling interests	(2)	(2)	-	-
Lease liabilities	(29)	(19)	(27)	(26)
Cash flow from financing activities	**(320)**	**(21)**	**(316)**	**(26)**
Cash and cash equivalents at beginning of period	**6,909**	**4,897**	**6,336**	**4,129**
Cash flow from operating activities	(1,460)	3,739	(1,752)	3,529
Cash flow from investing activities	(232)	(147)	(139)	110
Cash flow from financing activities	(320)	(21)	(316)	(26)
Cash and cash equivalents at end of period1)	**4,897**	**8,468**	**4,129**	**7,742**
Cash flows related to taxes, interest and dividends (included in cash flow from operating activities)				
Payments for income tax	(303)	(161)	(253)	(122)
Interest received	2,316	2,143	1,953	1,793
Dividends received	10	-	69	4
Interest paid	(387)	(314)	(323)	(253)

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 14).

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, Republic of North Macedonia and Republic of Slovenia.
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
Hannes Frotzbacher	Member until 31 December 2019
Roland Klimesch	Member from 07 May 2020
Judit Ágnes 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
Slađana Jagar	Member until 31 December 2019
Zdenko Matak	Member
Martin Hornig	Member
Krešimir Barić	Member from 01 January 2020
Hannes Frotzbacher	Member from 01 February 2020

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.	38	100%	Real estate business	Ivana Lučića 2A, Zagreb
Erste Bank AD Podgorica, Montenegro	38	100%	Credit institution	Arsenija Boljevića 2A, Podgorica, Montenegro
Erste Card Club d.o.o.	38	100%	Financial intermediation and services	Ulica Frana Folnegovića 6, Zagreb
Erste Card d.o.o. Slovenia	38	100%	Financial intermediation and services	Dunajska cesta 129, Ljubljana, Slovenia
Diners Club International Mak d.o.o.e.l., Skopje (until 7 December 2020)	38	100%	Financial intermediation and services	Kej 13-ti Noemvri, 2/2 GTC, Skopje
Erste Factoring d.o.o. (until 19 June 2020)	38	100%	Accounts receivables repurchase	Ivana Lučića 2A, Zagreb
Erste&Steiermärkische S-Leasing d.o.o.	38	50%	Financial and operating leasing	Zelinska 3, Zagreb
Izbor Nekretnina d.o.o.	38	100%	Real estate management and lease	Ivana Lučića 2A, Zagreb
Erste Group IT HR d.o.o.	38	80%	IT engineering	Jurja Haulika 19/A, Bjelovar
Name of associate				
Erste d.o.o.	39	45.86%	Management company for obligatory and voluntary pension fund	Ivana Lučića 2A, Zagreb

Merger under common control

On June 19, 2020, pursuant to the Decision of the Commercial Court in Rijeka and in accordance with the Agreement of merger as of March 5,2020, company Erste Factoring d.o.o. was merged to the Bank.
Net profit of the company Erste Factoring d.o.o. realized in the period from January 1 to June 18, 2020 has been recorded in the amount of HRK 8,136,878.54 as at date of merger and was transferred to retained earnings of the Bank.

Disposal

On December 7, 2020 company Diners Club International Mak d.o.o.e.l. was sold in amount of HRK 5 million.

Information on merger and disposal is disclosed 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 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 Bank and 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.

COVID-19 disclosures

In the financial statements of the Group and the Bank, considerations and significant impacts of the COVID-19 outbreak are presented in those chapters to which they can be assigned thematically. An overview about these disclosures is presented in the following:

The chapter 'c) Accounting and measurement methods' discusses the accounting and measurement methods used for private moratoria and payment holidays and goodwill impairment testing including significant effects of those topics on the consolidated financial statements in 2020.

The chapter 'd) Significant accounting judgements, assumptions and estimates' contains information about the key sources of estimation uncertainty in the light of the COVID-19 outbreak.

Note 28 Credit risk contains a separate sub-chapter 'COVID-19' which explains the considerations of the pandemic on the ECL measurement, sensitivity analyses and information on credit exposures subject to certain COVID 19 measures.

Accounting and measurement methods

Foreign currency translation

The financial statements are presented in kuna, which is the presentation currency of the Group and the Bank. The functional currency in the Bank 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 recognised 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 at exchange rate at the date when the fair value was determined. 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.

Exchange differences arising on translation into functional currency, are recognised in the statement of profit or loss for the period, under the line ‘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 in foreign operations (foreign subsidiaries) are translated into kuna, at the rate of exchange as of the statement of financial position date. Their consolidated statement of profit or loss and consolidated statement of comprehensive income are translated at average exchange rate for the respective reporting period calculated based on daily rates. Goodwill, intangible assets recognised on acquisition of foreign subsidiaries and fair value adjustments to the carrying amounts of assets and liabilities on acquisition are treated as asset and liabilities of the foreign subsidiaries and are translated at closing rate. Exchange differences arising on translation are recognised in other comprehensive income under the line ‘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’ Other operating result’.

The principal rates of exchange set forth by the CNB 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 2020	EUR 1=HRK 7.536898
31 December 2019	EUR 1=HRK 7.442580

Accounting and measurement methods (continued)

Accounting treatment of issues related to COVID-19

i. Non-legislative moratoria and payment holidays

In light of the spread of COVID-19, a variety of measures have been taken by the Croatian government aimed at addressing the economic consequences of the outbreak on individuals, households and businesses. Such measures include non-legislative moratoria on repayment of loans, overdraft facilities and mortgages.

The non-legislative moratoria in general relate to customers which were performing and to their exposures existing before the outbreak of COVID-19 pandemic. The applicable customers were not automatically subject to the moratorium, they had to apply the bank for the payment reliefs. The range of payment deferral periods in the Group was originally enacted between 3 to 12 months. However, prolongations of the moratoria have been provided afterwards.. In Croatia the moratorium will take until 31 March 2021. Nevertheless, in many cases an economic loss incurred and modification losses are recognised from accounting perspective.

Moratoria and granted payment holidays modify contractual cash flows of the related financial asset and are therefore treated as contractual modifications within the meaning of IFRS 9. The accounting policies disclosed in chapter “Financial instruments – Significant accounting policies”, part “Derecognition of financial instruments including treatment of contractual modifications” apply.

The majority of moratoria and payment holidays applied in the Group did not lead to derecognition. In particular, this is because the moratoria and payment holidays are typically below one year and, in most cases, the contractual interest continues to accrue during the suspension phase. Thus, the present value effect of the modification (discounted at pre-modification effective interest rate) is less than 10%.

In the statement of profit or loss, the modification gain or loss is presented in the line ‘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 ‘Impairment result from financial instruments’.

With respect to the assessment of significant increases in credit risk (SICR), the Group does not consider moratoria and payment holidays in itself as automatic SICR triggers but applies its specific assessment rules consisting of qualitative information and quantitative thresholds. Details on this assessment and other considerations on the expected credit loss estimation in the light of the COVID-19 outbreak are described in Note 28 Credit risk.

In 2020, the Group and Bank incurred modification losses in total amount of HRK 30 million. The vast majority of this impact relates to contractual modifications arising from COVID-19-related to moratoria. Out of the total modification losses, an amount of HRK 21 million was presented in the statement of profit or loss in line item ‘Net interest income’, while the remaining HRK 9 million was presented in line item ‘Impairment result from financial instruments’.

ii. Impairment of financial instruments

The main contributor to the impairment allocation in the line item „Impairment result from financial instruments“ is directly attributable to changes in macro environment and management actions to identify mostly affected portfolios due to COVID-19 pandemic. Observed deteriorations in credit portfolios, which were also significantly driven by current COVID-19 situation, are the main reason for the remaining impairment allocation. Details on the effects of COVID-19 on the expected credit loss estimation are described in Note 28 Credit risk.

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, Note 28 Credit risk)
_Control of subsidiaries (Note 38 Subsidiaries)
_Impairment of non-financial assets (Note 29 Property, equipment and investment properties, Note 30 Intangible assets)
_Sundry provisions (Note 36 Provisions)

The COVID-19 pandemic increased the level of uncertainty. The consequences for the economy as well as the measures taken by governments and regulators are likely to affect the Group's financial performance and position, including significant impacts for expected credit losses, as well as impacts on operating income and potential goodwill and other non-financial assets impairment assessments. All negative effects that could be reasonable estimated were recognised by 2020 end. The Group will continue to follow the developments closely and will recognise any effects as the situation further unfolds.

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 2020. As regards new standards and interpretations and their amendments, only those that are relevant for the business of the Bank and the Group are listed below.

Effective standards and interpretations

The following amendments of standards have become mandatory for the financial year 2020, and have been endorsed by the EU:

Amendments to IFRS 3: Definition of a Business.
Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform
Amendment to IFRS 16: Leases Covid-19 Related Rent Concessions
Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to the Conceptual Framework for Financial Reporting

Application of the above mentioned amendments in 2020 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.

Following amendments to standards are endorsed by the EU:
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2

Following standards, amendments and interpretations have not yet been endorsed by the EU until 19 February 2021:
IFRS 17: Insurance contracts
Annual Improvements to IFRSs 2018-2020 Cycle

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2. The amendments were issued in August 2020 and are effective for annual periods beginning on or after 1 January 2021. The amendments introduce a practical expedient that modifications of financial assets and financial liabilities required by the reform are accounted for by updating the effective interest rate. A similar practical expedient is provided for lessee accounting applying IFRS 16. Regarding hedge accounting the hedge designation and documentation is amended and the effects of the benchmark rate change are included in the measurement of the hedging instrument and the hedged item. IFRS 7 disclosures requirements have been extended in order to allow users to understand the nature, extent and management of risks arising from the IBOR reform as well as progress in transitioning to alternative benchmark rates.

Application of these amendments will simplify the treatment compared to previous IFRS requirements which would have led to a more complex modification gain/loss or derecognition accounting or hedge accounting discontinuations. The less complex treatment is not expected to have a significant impact on the Group’s financial statements. However, the amendments will result in new disclosures. The Group has decided not to apply the amendments early since no replacement of the benchmark rates occurred in 2020.

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. The Group is in process of assessing whether some of its contracts fall in scope of IFRS 17. The Group will estimate the effect on its financial statements when this has been clarified.

Annual Improvements to IFRSs 2018 2020 Cycle. In May 2020, the IASB issued a set of amendments to various standards. The amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. Application of these amendments is not expected to have a significant impact on the Group’s financial statements.

PERFORMANCE / RETURN

1. Segment reporting

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

Business segments

EBC - business segments			
Retail	Corporates	Group Markets	ALM/LCC

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, Local Large Corporate and Group Large Corporate customers) as well as commercial real estate and public sector business. Small and medium-sized enterprises (SE) are clients which are under the responsibility of the local corporate commercial center network, mainly consisting of companies within defined annual turnover thresholds. Local Large Corporates (LLC) are clients with specific annual turnover thresholds (lying above SME thresholds) which are not defined as Group Large Corporate customers according to the Group Large Corporate client list. Group Large Corporates (GLC) are large corporate customers/client groups with substantial operations in core markets/extended core markets of Erste Group. GLC clients are included on the GLC client list. 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 as well as the local corporate center which comprise all non-core banking business activities such as internal service providers.

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 and export finance).

1. Segment reporting (continued)

in HRK million	Retail 2019	Retail 2020	Corporates 2019	Corporates 2020	Group Markets 2019	Group Markets 2020	ALM & LCC 2019	ALM & LCC 2020	GROUP 2019	GROUP 2020
Net interest income	1,513	1,313	769	748	4	3	(240)	(39)	2,046	2,025
Net fee and commission income	516	449	268	233	36	32	(17)	(20)	803	694
Dividend income	-	-	-	-	-	-	1	1	1	1
Net trading and fair value result	95	82	59	60	80	54	-	15	234	211
Gains/losses from financial instruments at FVPL	-	-	-	(27)	-	-	4	13	4	(14)
Net result from equity method investments	-	8	-	-	-	-	9	-	9	8
Rental income from investment properties & other operating leases	34	29	62	54	-	-	(1)	3	95	86
General administrative expenses	(1,161)	(1,144)	(416)	(402)	(39)	(40)	(39)	(31)	(1,655)	(1,617)
Gains/losses from derecognition of financial assets at AC	-	-	-	(1)	-	-	-	-	-	(1)
Other gains/losses from derecognition of financial instruments not at FVPL	-	-	-	-	-	-	1	-	1	-
Impairment result from financial instruments	50	(422)	(111)	(321)	17	(5)	1	(37)	(43)	(785)
Other operating result	17	(12)	(189)	(15)	(1)	(1)	(111)	(98)	(284)	(126)
Levies on banking activities		-	-	-	-	-	-	-	-	-
Pre-tax result for the period	**1,064**	**303**	**442**	**329**	**97**	**43**	**(392)**	**(193)**	**1,211**	**482**
Income tax	(187)	(51)	(74)	(56)	(17)	(8)	49	105	(229)	(10)
Net result for the period	**877**	**252**	**368**	**273**	**80**	**35**	**(343)**	**(88)**	**982**	**472**
Net result attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**20**	**12**	**20**	**12**
Net result attributable to owners of the parent	**877**	**252**	**368**	**273**	**80**	**35**	**(363)**	**(100)**	**962**	**460**
Operating income	2,158	1,881	1,158	1,068	120	89	(244)	(27)	3,192	3,011
Operating expenses	(1,161)	(1,144)	(416)	(402)	(39)	(40)	(39)	(31)	(1,655)	(1,617)
Risk-weighted assets (credit risk, eop)	10,778	13,540	21,087	21,914	389	341	9,458	12,429	41,712	48,224
Average allocated capital	1,683	2,016	2,514	2,643	60	51	1,599	1,995	5,856	6,705
Cost/income ratio	54%	61%	36%	38%	33%	45%	(16)%	(115)%	52%	54%
Return on allocated capital	52%	13%	15%	10%	133%	69%	(23)%	(5)%	16%	7%
Total assets (eop)	25,650	26,813	26,968	30,434	699	539	20,549	24,683	73,866	82,469
Total liabilities excluding equity (eop)	36,211	39,425	14,394	18,867	802	1,635	12,581	12,158	63,988	72,085
Impairments	**48**	**(424)**	**(117)**	**(324)**	**17**	**(5)**	**(10)**	**(57)**	**(62)**	**(810)**
Net impairment loss on financial assets AC/FVOCI and finance lease receivables	53	(416)	(72)	(222)	17	(5)	1	(37)	(1)	(680)
Net impairment loss on commitments and guarantees given	(3)	(6)	(40)	(99)	-	-	1	-	(42)	(105)
Net impairment on investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-	-	-	-	-
Impairment of goodwill	-	-	-	-	-	-	-	-	-	-
Net impairment on other non-financial assets	(2)	(2)	(5)	(3)	-	-	(12)	(20)	(19)	(25)

Measurement

The segment report Statement of Profit or Loss is based on the measures to the Management Board for the purpose of allocating resources to the segments and assessing their performance. Management reporting as well as the segment report for the 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 the Group to assess the performance of the segments. The average allocated equity is determined by the credit risk, market risk and operational risk. According to the regular internal reporting to the 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).

Return on asset ratio (ROA) in the Group was 0.6% on 31 December 2020 (2019: 1.3%) and in the Bank 0.6% (2019: 1.2%).

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 - recognition and measurement’.

‘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’.

‘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 liability (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, and on debt securities in all measurement categories of financial assets. 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)

in HRK million	GROUP 2019	GROUP 2020	BANK 2019	BANK 2020
Interest income				
Financial assets at AC	2,053	1,994	1,683	1,649
Financial assets at FVOCI	179	158	153	136
Other similar income				
Financial assets – held for trading	61	56	63	57
Other assets	103	103	-	-
Interest income from negative interest rates	5	2	4	2
Interest and other similar income	**2,401**	**2,313**	**1,903**	**1,844**
Interest expenses				
Financial liabilities measured at amortised cost	(280)	(224)	(217)	(166)
Other similar expense				
Financial liabilities – held for trading	(59)	(53)	(59)	(53)
Other liabilities	(8)	(3)	(7)	(2)
Interest expense from negative interest rates	(8)	(8)	(7)	(6)
Interest and other similar expense	**(355)**	**(288)**	**(290)**	**(227)**
Net interest income	**2,046**	**2,025**	**1,613**	**1,617**

An amount of HRK 66 million for the Group and HRK 60 million for the Bank (2019: HRK 67 million for the Group and HRK 62 million for the Bank) relating to impaired financial assets is included in interest income. In addition, modification losses of financial instruments allocated to Stage 1 in the amount of HRK 21 million for the Group and for the Bank (2019: HRK 283 thousand for the Group and 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. The determination of the timing and amount of income recognition follows the five step model of IFRS 15.

Fee and commission income is measured based on the consideration specified in the contract with a customer.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include fees that are not integral part of financial instrument's EIR, guarantee fees, 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.

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.

in HRK million	GROUP				BANK			
	2019		2020		2019		2020	
	Income	Expenses	Income	Expenses	Income	Expenses	Income	Expenses
Securities	22	(2)	19	(2)	19	(1)	19	(2)
Own issues	15	-	13	-	15	-	13	-
Transfer orders	6	(1)	6	-	4	-	6	-
Securities Other	1	(1)	-	(2)	-	(1)	-	(2)
Asset management	31	(2)	23	(1)	31	(2)	23	(1)
Custody	11	(3)	9	(2)	10	(3)	8	(2)
Payment services	871	(220)	765	(199)	547	(175)	472	(152)
Card business	514	(183)	432	(164)	206	(146)	150	(125)
Other	357	(37)	333	(35)	341	(29)	322	(27)
Customer resources distributed but not managed	33	(1)	28	(1)	32	(1)	28	(1)
Collective investment	-	(1)	-	(1)	-	(1)	-	(1)
Insurance products	27	-	24	-	26	-	23	-
Building society brokerage	4	-	3	-	4	-	4	-
Foreign exchange transactions	2	-	1	-	2	-	1	-
Lending business	59	(5)	55	(6)	39	(4)	41	(6)
Loan commitments given, Loan commitments received	36	(1)	12	(5)	33	(1)	5	(4)
Guarantees given, guarantees received	17	(4)	37	(1)	4	(3)	34	(2)
Other lending business	6	-	6	-	2	-	2	-
Other	30	(21)	26	(20)	12	-	6	-
Total fee and commission income and expenses	**1,057**	**(254)**	**925**	**(231)**	**690**	**(186)**	**597**	**(164)**
Net fee and commission income	**803**	**-**	**694**	**-**	**504**	**-**	**433**	**-**

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 2020 amount HRK 810 million for the Group and HRK 494 million for the Bank in income (2019: HRK 1,057 million for the Group and HRK 690 million for the Bank) and HRK 221 million for the Group and HRK 155 for the Bank in expense (2019: HRK 255 million for the Group and HRK 186 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.

	GROUP		BANK	
in HRK million	**2019**	**2020**	**2019**	**2020**
Financial assets at cost	-	-	68	10
Financial assets at FVOCI	1	1	1	1
Dividend income	**1**	**1**	**69**	**11**

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.

	GROUP		BANK	
in HRK million	**2019**	**2020**	**2019**	**2020**
Net trading result				
Securities and derivatives trading	37	21	36	20
Foreign exchange transactions	197	190	192	191
Net trading and fair value result	**234**	**211**	**228**	**211**

The amounts of the fair value changes that are attributable to changes in own credit risk can be found in the Notes 28.

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	**2019**	**2020**	**2019**	**2020**
Result from measurement/sale of financial assets mandatorily at FVPL	4	(14)	3	(18)
Gains/losses from financial instruments measured at fair value through profit or loss	**4**	**(14)**	**3**	**(18)**

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	**2019**	**2020**	**2019**	**2020**
Investment properties	2	2	-	-
Other operating leases	93	84	-	5
Rental income from investment properties & other operating leases	**95**	**86**	**-**	**5**

More detailed information about asset under operating leasing is provided in Note 29

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 payment, pension and jubilee obligations and remeasurements of jubilee obligations.

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.

	GROUP		BANK	
in HRK million	2019	2020	2019	2020
Personnel expenses	**(747)**	**(718)**	**(538)**	**(522)**
Wages and salaries	(638)	(629)	(457)	(457)
Compulsory social security	(90)	(86)	(66)	(62)
Long-term employee provisions	(2)	(3)	(1)	(3)
Other personnel expenses	(17)	-	(14)	-
Other administrative expenses	**(660)**	**(648)**	**(496)**	**(487)**
Deposit insurance contribution	(86)	(93)	(72)	(79)
IT expenses	(172)	(203)	(176)	(193)
Expenses for office space	(88)	(82)	(71)	(67)
Office operating expenses	(152)	(137)	(70)	(60)
Advertising/marketing	(83)	(74)	(47)	(49)
Legal and consulting costs	(53)	(47)	(40)	(30)
Sundry administrative expenses	(26)	(12)	(20)	(9)
Depreciation and amortisation	**(248)**	**(251)**	**(114)**	**(131)**
Software and other intangible assets	(54)	(58)	(27)	(31)
Owner occupied real estate	(35)	(43)	(30)	(34)
Movable other property	(78)	(64)	-	-
Investment Properties	(1)	(1)	-	-
Office furniture and equipment and sundry property and equipment	(80)	(85)	(57)	(66)
General administrative expenses	**(1,655)**	**(1,617)**	**(1,148)**	**(1,140)**

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 profit or loss statement in the period the related compensation is earned by the employee. In 2020 expense amount for pension contributions was HRK 116 million for the Group (2019: HRK 114 million) and HRK 83 million for the Bank (2019: HRK 81 million).

More detailed information about depreciation and amortisation is provided in Note 29 and Note 30.

Average number of employees during the financial year (weighted according to the level of employment)

	2019	2020
Erste&Steiermärkische Bank d.d.	2,433	2,432
Erste Card Club d.o.o.	275	269
Izbor Nekretnina d.o.o.	-	-
Erste Nekretnine d.o.o.	23	24
Erste Factoring d.d.	22	-
Erste Group IT HR d.o.o.	70	69
Erste bank Podgorica d.d.	258	274
Erste Card Slovenia d.o.o.	59	56
Erste&Steiermärkische S-Leasing d.o.o.	92	97
Diners Club International Mak d.o.o.e.l.	43	-
Total	**3,274**	**3,221**

9. Gains/losses from derecognition of financial assets measured at amortised cost

This line item includes derecognition gains or losses on financial assets measured at amortised cost. However, if such gains/losses relate to derecognition of financial assets in Stage 3, they are reported under the line 'Impairment result from financial instruments'.

	GROUP		BANK	
in HRK million	2019	2020	2019	2020
Losses from derecognition of financial assets at AC	-	(1)	-	(1)
Gains/losses from derecognition of financial assets measured at amortised cost	**-**	**(1)**	**-**	**(1)**

10. 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	2019	2020	2019	2020
Sale of financial assets at FVOCI	1	-	-	-
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	**1**	**-**	**-**	**-**

11. Impairment result from financial instruments

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

	GROUP		BANK	
in HRK million	2019	2020	2019	2020
Financial assets at FVOCI	1	(39)	2	(39)
Financial assets at AC	(1)	(615)	(33)	(481)
Net allocation to credit loss allowances	(97)	(625)	(100)	(480)
Direct write-offs	(54)	(28)	(11)	(25)
Recoveries recorded directly to the income statement	151	47	79	33
Modification gains or losses	(1)	(9)	(1)	(9)
Finance lease receivables	(1)	(26)	-	-
Net allocation of credit loss allowances for loan commitments and financial guarantees given	(42)	(105)	(41)	(107)
Impairment result from financial instruments	**(43)**	**(785)**	**(72)**	**(627)**

12. 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 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, 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.

12. Other operating result (continued)

	GROUP		BANK	
in HRK million	2019	2020	2019	2020
Other operating expenses	**(340)**	**(146)**	**(324)**	**(126)**
Allocation to other provisions	(308)	(60)	(302)	(59)
Other taxes	(2)	(3)	(1)	(1)
Recovery and resolution fund contributions	(21)	(43)	(21)	(43)
Result from properties/movables/other intangible assets other than goodwill	(9)	(16)	-	(16)
Result from other operating expenses/income	-	(24)	-	(7)
Other operating income	**56**	**20**	**46**	**19**
Release of other provisions	30	20	28	19
Result from other operating expenses/income	26	-	18	-
Other operating result	**(284)**	**(126)**	**(278)**	**(107)**

In result of properties / moveable'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 31 Other assets

Recovery and Resolution Fund

The line Recovery and resolution fund contributions contains to the national resolution funds payable in 2020 in the amount of HRK 43 million for the Group and the Bank (2019: HRK 21 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. As a consequence, banks are required to contribute annually to a resolution fund, which in first step is installed on a national level. 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. Therefore the resolution fund contribution have to be built over 10 years, during which the contributions shall be spread out as even as possible until target level is reached.

13. 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, local tax environments apply.

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 tax 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	**2019**	**2020**	**2019**	**2020**
Current tax expense / income	(220)	(24)	(179)	(1)
Current period	(220)	(24)	(179)	(1)
Deferred tax expense / income	(9)	14	13	7
Current period	(9)	14	13	7
Total	**(229)**	**(10)**	**(166)**	**6**

13. Income tax (continued)

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% (2019: 18%).

	GROUP		BANK	
in HRK million	**2019**	**2020**	**2019**	**2020**
Pre-tax profit	1,211	482	919	384
Income tax expense for the financial year at the domestic statutory tax rate	(218)	(88)	(166)	(69)
Impact of different foreign tax rates	10	4	-	-
Impact of tax-exempt earnings of investments and other tax-exempt income	9	16	14	16
Tax increases due to non-deductible expenses, additional business tax and similar elements	(31)	(4)	(14)	(3)
Impact of the recurring recoverability assessment of fiscal losses		62		62
Tax income/(expense) attributable to other effects	1	-		-
Total	**(229)**	**(10)**	**(166)**	**6**
Effective tax rate	**19%**	**2%**	**18%**	**(1)%**

Major components of deferred tax assets and deferred tax liabilities

								GROUP
	Tax assets		Tax liabilities		Net variance 2020			
in HRK million	**As of Dec 2020**	**As of Dec 2019**	**As of Dec 2020**	**As of Dec 2019**	**Total**	**Through profit or loss**	**Through other equity**	**Through other comprehensive income**
Temporary differences related to the following items:								
Trading Assets / Liabilities and Designation at fair value through Profit or Loss	19	7	-	-	12	12	-	-
Financial assets at fair value through other comprehensive income	-	-	(78)	(75)	(4)	-	3	(7)
Financial assets at amortised cost & trade & other receivables	60	129	-	-	(69)	(69)	-	-
Property and equipment (useful life in tax law different)	-	-	(1)	(1)	-	-	-	-
Impairment of investments in subsidiaries	86	91	-	-	(5)	(5)	-	-
Long-term employee provisions (tax valuation different)	1	1	-	-	-	-	-	-
Other provisions (tax valuation different)	3	3	-	-	-	-	-	-
Tax loss carry-forward	26	15	-	-	11	11	-	-
Other	77	63	-	-	14	14	-	-
Non-Recoverable DTA	-	(51)	-	-	51	51	-	-
Effect of netting gross deferred tax position	(75)	(71)	75	71	-	-	-	-
Total deferred taxes	**197**	**187**	**(4)**	**(5)**	**10**	**14**	**3**	**(7)**
Current taxes	**123**	**12**	**(6)**	**(24)**	**(24)**	**(24)**	**-**	**-**
Total taxes	**320**	**199**	**(10)**	**(29)**	**(14)**	**(10)**	**3**	**(7)**

13. Income tax (continued)

GROUP

in HRK million	Tax assets As of Dec 2019	Tax assets As of Dec 2018	Tax liabilities As of Dec 2019	Tax liabilities As of Dec 2018	Net variance 2019 Total	Net variance 2019 Through profit or loss	Net variance 2019 Through other comprehensive income
Temporary differences related to the following items:							
Trading Assets / Liabilities and Designation at fair value through Profit or Loss	7	6	-	-	1	1	-
Financial assets at fair value through other comprehensive income	-	-	(75)	(49)	(26)	-	(26)
Financial assets at amortised cost & trade & other receivables	129	160	-	-	(31)	(31)	-
Property and equipment (useful life in tax law different)	-	1	(1)	-	(2)	(2)	-
Impairment of investments in subsidiaries	91	90	-	-	1	1	-
Long-term employee provisions (tax valuation different)	1	1	-	(1)	1	1	-
Other provisions (tax valuation different)	3	1	-	1	1	1	-
Tax loss carry-forward	15	-	-	-	15	15	-
Other	63	58	-	-	5	5	-
Non-Recoverable DTA	(51)	(51)	-	-	-	-	-
Effect of netting gross deferred tax position	(71)	(47)	71	47	-	-	-
Total deferred taxes	**187**	**219**	**(5)**	**(2)**	**(35)**	**(9)**	**(26)**
Current taxes	**12**	**10**	**(24)**	**(106)**	**(220)**	**(220)**	**-**
Total taxes	**199**	**229**	**(29)**	**(108)**	**(255)**	**(229)**	**(26)**

BANK

in HRK million	Tax assets As of Dec 2020	Tax assets As of Dec 2019	Tax liabilities As of Dec 2020	Tax liabilities As of Dec 2019	Net variance 2020 Total	Net variance 2020 Through profit or loss	Net variance 2020 Effect of business combinations	Net variance 2020 Through other equity	Net variance 2020 Through other comprehensive income
Temporary differences related to the following items:									
Trading Assets / Liabilities and Designation at fair value through Profit or Loss	19	7	-	-	12	12	-	-	-
Financial assets at fair value through other comprehensive income	-	-	(75)	(69)	(6)	-	-	3	(9)
Financial assets at amortised cost & trade & other receivables	14	14	-	-	-	-	-	-	-
Impairment of investments in subsidiaries	77	81	-	-	(4)	(4)	-	-	-
Long-term employee provisions (tax valuation different)	1	1	-	-	-	-	-	-	-
Other provisions (tax valuation different)	1	1	-	-	-	-	-	-	-
Tax loss carry-forward	26	-	-	-	26	(7)	33	-	-
Other	46	40	-	-	6	6	-	-	-
Effect of netting gross deferred tax position	(75)	(69)	75	69	-	-	-	-	-
Total deferred taxes	**110**	**75**	**-**	**-**	**34**	**7**	**33**	**3**	**(9)**
Current taxes	**112**	**-**	**-**	**(8)**	**(1)**	**(1)**	**-**	**-**	**-**
Total taxes	**222**	**75**	**-**	**(8)**	**33**	**6**	**33**	**3**	**(9)**

13. Income tax (continued)

							BANK
	Tax assets		Tax liabilities		Net variance 2019		
in HRK million	As of Dec 2019	As of Dec 2018	As of Dec 2019	As of Dec 2018	Total	Through profit or loss	Through other comprehen sive income
Temporary differences related to the following items:							
Trading Assets / Liabilities and Designation at fair value through Profit or Loss	7	6	-	-	1	1	-
Financial assets at fair value through other comprehensive income	-	-	(69)	(45)	(24)	-	(24)
Financial assets at amortised cost & trade & other receivables	14	15	-	-	(1)	(1)	-
Impairment of investments in subsidiaries	81	82	-	-	(1)	(1)	-
Long-term employee provisions (tax valuation different)	1	1	-	-	-	-	-
Other provisions (tax valuation different)	1	1	-	-	-	-	-
Other	40	27	-	-	14	14	-
Effect of netting gross deferred tax position	(69)	(45)	69	45	-	-	-
Total deferred taxes	**75**	**87**	**-**	**-**	**(11)**	**13**	**(24)**
Current taxes	**-**	**-**	**(8)**	**(81)**	**(179)**	**(179)**	**-**
Total taxes	**75**	**87**	**(8)**	**(81)**	**(190)**	**(166)**	**(24)**

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Carrying amount of deferred tax assets is expected to be recoverable in the foreseeable future. It 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. Non-recoverable amounts are considered in line ‘Non-Recoverable DTA ’ in the table.

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.

As at 31.12.2019. on group level, non-recoverable deferred tax assets in the amount of HRK 51 million is reported by Erste factoring which was from temporary differences arising from impairment. Erste factoring recognised deferred tax assets in the amount of estimated recoverable tax assets in subsequent periods.

On 19 June 2020, Erste factoring merged, 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. At 31 December 2020 deferred tax assets for tax losses carried forward amounted to HRK 26 million.
As at 31 Dec 2020, tax losses amounted to HRK 145 million and expire in 2024.

Financial instruments – Significant accounting policies

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 methods for financial instruments

Measurement of financial assets and financial liabilities is subject to two primary measurement methods:

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, and 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 rate method 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. 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 those 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.

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, an entity shall estimate cash flows considering all contractual terms of the financial instrument but shall not consider future 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.

ii. Fair value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction 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 23 Fair 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 settlement date (settlement date accounting), which is the date when the asset is delivered. Hence, for the period between trade date and settlement date, the financial instruments are recognized in the off balance sheet, however they are measured until settlement date with effects of fair value changes, 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. In case of sales of financial asset, applying the settlement date accounting means that the date when the financial assets is delivered to the counterparty is the date of derecognition of the asset and recognition of gains or losses due to the sale.

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, classification and subsequent measurement of financial assets depends on the following 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 models.
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.

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 in three major groups:

_ 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 'held to collect' for entire loan portfolio (client business), for which held-to-collect assessment of the sales within held 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 held to collect contractual cash flows business model.
   Other cases of sales carried out in the 'held 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 held 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 'held to collect', 'hold and sell' and other business models for securities (non-client business).
   For sales of securities held under business model "held to collect" a held-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 'Held 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 is 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 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 business model and SPPI test criteria leads to classification of financial assets into the following measurement categories described in the respective notes:

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 Note 18

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 'Fair value reserve'; or
- as the provision (liability) for loan commitments and financial guarantees, reported under the line '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 '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 assets, based on whether there has been a significant deterioration in the credit risk of the financial asset is defined. The stage of the financial asset 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

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 Note 28.4 Risk management, part Credit risk.

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).
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.

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 '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 '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 lines 'Net trading result' or 'Gains/losses from financial instruments measured at fair value through profit or loss'.

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

(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 the initial recognition of the modified financial asset.

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. 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 under the line '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 '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 'Impairment result from financial instruments'.

(iii) 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 reported under the line '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 increases in credit risk and measurement of expected credit losses without providing detailed guidance. In respect of significant increases 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 Note 28 Credit risk. The development of loan loss provisions is described in, Note 15 Financial assets at amortised cost, Note 17 Trade and other receivables, Note 22 Financial assets at fair value through other comprehensive income and in chapter Leases for Finance lease receivables.:

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 '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 reported under the line '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 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 profit or loss and reported under the line 'Net trading and fair value result'.

Realised gains or losses from derecognition of the assets are recognised in profit or loss for the period and reported under the line '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 18.

14. 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	**2019**	**2020**	**2019**	**2020**
Cash on hand	2,558	3,336	2,407	3,095
Cash balances at central banks	1,958	4,957	1,708	4,763
Other demand deposits	589	380	224	89
Cash and cash balances	**5,105**	**8,673**	**4,339**	**7,947**

Analysis of cash and cash equivalents for statement of cash flow

	GROUP		BANK	
in HRK million	2019	2020	2019	2020
Cash on hand	2,558	3,336	2,407	3,095
Cash balances at central banks	1,748	4,750	1,498	4,556
Other demand deposits	589	380	224	89
Placement with banks with original maturity up to 3 months	2	2	-	2
Treasury bills with original maturity up to 3 months	-	-	-	-
Cash and cash equivalents	**4,897**	**8,468**	**4,129**	**7,742**

15. Financial assets at amortised cost

Debt securities at amortised cost

Investments in debt securities measured at amortised cost may be acquired with different business objectives (such as fulfilling inter-nal/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.

The analysis of the GCA and of related CLA of Group's and Bank's debt securities at amortised cost (AC) per impairment buckets as of 31 December 2020 and 31 December 2019 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
2020									
General governments	2,363	-	-	2,363	(2)	-	-	(2)	2,361
Total	**2,363**	**-**	**-**	**2,363**	**(2)**	**-**	**-**	**(2)**	**2,361**

									GROUP
	GCA				CLA				
in HRK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2019									
General governments	1,644	-	-	1,644	(2)	-	-	(2)	1,642
Total	**1,644**	**-**	**-**	**1,644**	**(2)**	**-**	**-**	**(2)**	**1,642**

									BANK
	GCA				CLA				
in HRK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2020									
General governments	2,181	-	-	2,181	(1)	-	-	(1)	2,180
Total	**2,181**	**-**	**-**	**2,181**	**(1)**	**-**	**-**	**(1)**	**2,180**

									BANK
	GCA				CLA				
in HRK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2019									
General governments	1,465	-	-	1,465	(1)	-	-	(1)	1,464
Total	**1,465**	**-**	**-**	**1,465**	**(1)**	**-**	**-**	**(1)**	**1,464**

15. Financial assets at amortised cost (continued)

There are no purchased or originated credit-impaired (POCI) debt securities at AC as of 31 December 2020 and 31 December 2019.

Listed bonds issued by the Republic of Croatia are fixed income debt securities denominated in HRK and EUR. These bonds have maturities from 2022 to 2029 and bear coupon interest from 0.500% to 6.000% p.a.
The fair value of financial assets at amortised cost for the Group and the Bank is approximately HRK 51.2 million higher than their value as at 31 December 2020 (2019: HRK 103.6 million higher).

Debt securities at amortised cost (continued)

The movement in the credit loss allowances for debt securities at AC for the reporting period is provided in the table below:

							GROUP
in HRK million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2020						Dec 2020
Stage 1	(2)	-	-	-	-	-	(2)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(2)**	**-**	**-**	**-**	**-**	**-**	**(2)**

							GROUP
in HRK million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2019						Dec 2019
Stage 1	(2)	-	-	-	-	-	(2)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(2)**	**-**	**-**	**-**	**-**	**-**	**(2)**

							BANK
in HRK million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2020						Dec 2020
Stage 1	(1)	-	-	-	-	-	(1)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(1)**	**-**	**-**	**-**	**-**	**-**	**(1)**

							BANK
in HRK million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2019						Dec 2019
Stage 1	(1)	-	-	-	-	-	(1)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(1)**	**-**	**-**	**-**	**-**	**-**	**(1)**

The year-end total GCAs of AC debt securities that were initially recognized (purchased) during the year 2020 and not sold by 31 December 2020 amounts to HRK 752 million for the Group and for the Bank (2019: HRK 547 million for the Group and for the Bank).
The GCA of AC debt securities that were held at 1 January 2020 and de-recognized (matured) during the year 2020 amounts to HRK 292 million for the Group and for the Bank (2019: HRK 182 million for the Group and HRK 104 million for the Bank).

15. Financial assets at amortised cost (continued)

Loans and advances at amortised cost to banks

The analysis of the GCA and of related CLA of Group's and Bank's loans and advances at AC to banks per impairment buckets as of 31 December 2020 and 31 December 2019 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
2020									
Central banks	3,266	-	-	3,266	(2)	-	-	(2)	3,264
Credit institutions	785	-	-	785	(8)	-	-	(8)	777
Total	**4,051**	**-**	**-**	**4,051**	**(10)**	**-**	**-**	**(10)**	**4,041**

									GROUP
	GCA				CLA				
in HRK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2019									
Central banks	3,872	-	-	3,872	(2)	-	-	(2)	3,870
Credit institutions	500	-	-	500	(3)	-	-	(3)	497
Total	**4,372**	**-**	**-**	**4,372**	**(5)**	**-**	**-**	**(5)**	**4,367**

									BANK
	GCA				CLA				
in HRK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2020									
Central banks	3,194	-	-	3,194	(2)	-	-	(2)	3,192
Credit institutions	784	-	-	784	(8)	-	-	(8)	776
Total	**3,978**	**-**	**-**	**3,978**	**(10)**	**-**	**-**	**(10)**	**3,968**

									BANK
	GCA				CLA				
in HRK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2019									
Central banks	3,767	-	-	3,767	(1)	-	-	(1)	3,766
Credit institutions	497	-	-	497	(3)	-	-	(3)	494
Total	**4,264**	**-**	**-**	**4,264**	**(4)**	**-**	**-**	**(4)**	**4,260**

There are no purchased or originated credit-impaired (POCI) AC loans and advances to banks at 31 December 2020 and 31 December 2019.

15. Financial assets at amortised cost (continued)

Loans and advances at amortised cost to banks (continued)

The movement in the credit loss allowances for AC loans and advances to banks in the reporting period is provided in the table below:

							GROUP
in HRK million	As of Jan 2020	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of Dec 2020
Stage 1	(5)	(8)	3	-	(1)	1	(10)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(5)**	**(8)**	**3**	**-**	**(1)**	**1**	**(10)**

							GROUP
in HRK million	As of Jan 2019	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of Dec 2019
Stage 1	(6)	(3)	4	-	-	-	(5)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(6)**	**(3)**	**4**	**-**	**-**	**-**	**(5)**

							BANK
in HRK million	As of Jan 2020	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of Dec 2020
Stage 1	(4)	(8)	3	-	(1)	-	(10)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(4)**	**(8)**	**3**	**-**	**(1)**	**-**	**(10)**

							BANK
in HRK million	As of Jan 2019	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of Dec 2019
Stage 1	(5)	(3)	4	-	-	-	(4)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(5)**	**(3)**	**4**	**-**	**-**	**-**	**(4)**

The year-end total GCA of AC loans and advances to banks that were initially recognized during the year 2020 and not fully de-recognized by 31 December 2020 amounts to HRK 764 million for the Group and for the Bank (2019: HRK 450 million for the Group and for the Bank).
The GCA of AC loans and advances to banks that were held at 1 January 2020 and fully derecognized (matured) during the year 2020 amounts to HRK 451 million and for the Bank (2019: HRK 1,571 million for the Group and HRK 1,748 million for the Bank).

15. Financial assets at amortised cost (continued)

Loans and advances at amortised cost to customers

The analysis of the GCA and of related CLA of loans and advances at AC to customers per impairment buckets as of 31 December 2020 and 31 December 2019 is provided in the table below:

GROUP

in HRK million	GCA					CLA					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
2020											
General governments	9,438	156	1	-	9,595	(14)	(3)	(1)	-	(18)	9,577
Other financial corporations	138	6	-	-	144	(5)	-	-	-	(5)	139
Non-financial corporations	13,419	4,950	1,548	154	20,071	(140)	(405)	(1,016)	(70)	(1,631)	18,440
Households	19,310	1,940	1,829	10	23,089	(121)	(144)	(1,227)	(1)	(1,493)	21,596
Total	**42,305**	**7,052**	**3,378**	**164**	**52,899**	**(280)**	**(552)**	**(2,244)**	**(71)**	**(3,147)**	**49,752**

GROUP

in HRK million	GCA					CLA					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
2019											
General governments	7,336	43	1	-	7,380	(109)	(2)	(1)	-	(112)	7,268
Other financial corporations	63	2	-	-	65	(1)	-	-	-	(1)	64
Non-financial corporations	15,503	905	1,566	195	18,169	(134)	(74)	(1,064)	(108)	(1,380)	16,789
Households	19,465	1,309	1,537	9	22,320	(78)	(79)	(997)	(1)	(1,155)	21,165
Total	**42,367**	**2,259**	**3,104**	**204**	**47,934**	**(322)**	**(155)**	**(2,062)**	**(109)**	**(2,648)**	**45,286**

BANK

in HRK million	GCA					CLA					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
2020											
General governments	9,071	138	1	-	9,210	(11)	(2)	(1)	-	(14)	9,196
Other financial corporations	312	6	-	-	318	(4)	-	-	-	(4)	314
Non-financial corporations	12,836	4,503	1,453	154	18,946	(133)	(365)	(964)	(70)	(1,532)	17,414
Households	16,257	1,650	1,606	10	19,523	(75)	(118)	(1,079)	(1)	(1,273)	18,250
Total	**38,476**	**6,297**	**3,060**	**164**	**47,997**	**(223)**	**(485)**	**(2,044)**	**(71)**	**(2,823)**	**45,174**

BANK

in HRK million	GCA					CLA					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
2019											
General governments	7,188	23	1	-	7,212	(106)	(1)	(1)	-	(108)	7,104
Other financial corporations	503	2	-	-	505	(1)	-	-	-	(1)	504
Non-financial corporations	14,588	833	1,503	195	17,119	(121)	(69)	(1,013)	(108)	(1,311)	15,808
Households	16,313	1,010	1,374	9	18,706	(56)	(69)	(903)	(1)	(1,029)	17,677
Total	**38,592**	**1,868**	**2,878**	**204**	**43,542**	**(284)**	**(139)**	**(1,917)**	**(109)**	**(2,449)**	**41,093**

15. Financial assets at amortised cost (continued)

Loans and advances at amortised cost to customers (continued)

The movement in the credit loss allowances for AC loans and advances to customers in the reporting period is provided in the table below:

									GROUP
in HRK million	As of	Additions	Derecogni-tions	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of
	Jan 2020								Dec 2020
Stage 1	**(322)**	**(78)**	**23**	**34**	**67**	**-**	**-**	**(4)**	**(280)**
General governments	(109)	(4)	1	-	100	-	-	(2)	(14)
Other financial corporations	(1)	(1)	1	-	(4)	-	-	-	(5)
Non-financial corporations	(134)	(52)	13	2	32	-	-	(1)	(140)
Households	(78)	(21)	8	32	(61)	-	-	(1)	(121)
Stage 2	**(155)**	**(14)**	**23**	**(368)**	**(38)**	**1**	**-**	**(1)**	**(552)**
General governments	(2)	-	-	(2)	1	-	-	-	(3)
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(74)	(9)	14	(250)	(85)	-	-	(1)	(405)
Households	(79)	(5)	9	(116)	46	1	-	-	(144)
Stage 3	**(2,062)**	**(28)**	**141**	**(32)**	**(434)**	**2**	**188**	**(19)**	**(2,244)**
General governments	(1)	-	-	-	-	-	-	-	(1)
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(1,064)	(22)	81	(6)	(145)	-	152	(12)	(1,016)
Households	(997)	(6)	60	(26)	(289)	2	36	(7)	(1,227)
POCI	**(109)**	**-**	**1**	**-**	**36**	**-**	**2**	**(1)**	**(71)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(108)	-	1	-	36	-	2	(1)	(70)
Households	(1)	-	-	-	-	-	-	-	(1)
Total	**(2,648)**	**(120)**	**188**	**(366)**	**(369)**	**3**	**190**	**(25)**	**(3,147)**

									GROUP
in HRK million	As of	Additions	Derecogni-tions	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of
	Jan 2019								Dec 2019
Stage 1	**(316)**	**(99)**	**45**	**43**	**7**	**-**	**-**	**(2)**	**(322)**
General governments	(104)	(22)	6	-	12	-	-	(1)	(109)
Other financial corporations	(18)	(1)	18	-	-	-	-	-	(1)
Non-financial corporations	(105)	(46)	12	10	(4)	-	-	(1)	(134)
Households	(89)	(30)	9	33	(1)	-	-	-	(78)
Stage 2	**(178)**	**(2)**	**17**	**(105)**	**113**	**-**	**-**	**-**	**(155)**
General governments	-	-	-	(2)	-	-	-	-	(2)
Other financial corporations	(1)	-	-	-	1	-	-	-	-
Non-financial corporations	(55)	(1)	8	(41)	15	-	-	-	(74)
Households	(122)	(1)	9	(62)	97	-	-	-	(79)
Stage 3	**(2,449)**	**(10)**	**149**	**(26)**	**(216)**	**-**	**496**	**(6)**	**(2,062)**
General governments	-	-	-	-	-	-	-	(1)	(1)
Other financial corporations	(1)	-	-	-	-	-	-	1	-
Non-financial corporations	(1,302)	(6)	69	(12)	(107)	-	297	(3)	(1,064)
Households	(1,146)	(4)	80	(14)	(109)	-	199	(3)	(997)
POCI	**(46)**	**-**	**1**	**-**	**(64)**	**-**	**-**	**-**	**(109)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(44)	-	1	-	(65)	-	-	-	(108)
Households	(2)	-	-	-	1	-	-	-	(1)
Total	**(2,989)**	**(111)**	**212**	**(88)**	**(160)**	**-**	**496**	**(8)**	**(2,648)**

15. Financial assets at amortised cost (continued)

Loans and advances at amortised cost 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 2020								Dec 2020
Stage 1	**(284)**	**(71)**	**17**	**23**	**95**	**-**	**-**	**(3)**	**(223)**
General governments	(106)	(3)	1	-	99	-	-	(2)	(11)
Other financial corporations	(1)	(1)	1	-	(3)	-	-	-	(4)
Non-financial corporations	(121)	(47)	11	2	23	-	-	(1)	(133)
Households	(56)	(20)	4	21	(24)	-	-	-	(75)
Stage 2	**(139)**	**(13)**	**20**	**(339)**	**(14)**	**1**	**-**	**(1)**	**(485)**
General governments	(1)	-	-	(1)	-	-	-	-	(2)
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(69)	(8)	14	(234)	(67)	-	-	(1)	(365)
Households	(69)	(5)	6	(104)	53	1	-	-	(118)
Stage 3	**(1,917)**	**(29)**	**125**	**(11)**	**(374)**	**2**	**178**	**(18)**	**(2,044)**
General governments	(1)	-	-	-	-	-	-	-	(1)
Other financial corporations	-	-	-	-	1	-	-	(1)	-
Non-financial corporations	(1,013)	(23)	79	(2)	(140)	-	146	(11)	(964)
Households	(903)	(6)	46	(9)	(235)	2	32	(6)	(1,079)
POCI	**(109)**	**-**	**1**	**-**	**38**	**-**	**1**	**(2)**	**(71)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(108)	-	1	-	38	-	1	(2)	(70)
Households	(1)	-	-	-	-	-	-	-	(1)
Total	**(2,449)**	**(113)**	**163**	**(327)**	**(255)**	**3**	**179**	**(24)**	**(2,823)**

									BANK
in HRK million	As of	Additions	Derecogni-tions	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of
	Jan 2019								Dec 2019
Stage 1	**(276)**	**(88)**	**39**	**37**	**4**	**-**	**-**	**-**	**(284)**
General governments	(101)	(23)	6	-	12	-	-	-	(106)
Other financial corporations	(19)	(1)	18	1	-	-	-	-	(1)
Non-financial corporations	(94)	(40)	9	6	(2)	-	-	-	(121)
Households	(62)	(24)	6	30	(6)	-	-	-	(56)
Stage 2	**(161)**	**(1)**	**15**	**(96)**	**104**	**-**	**-**	**-**	**(139)**
General governments	-	-	-	(1)	-	-	-	-	(1)
Other financial corporations	(2)	-	-	-	2	-	-	-	-
Non-financial corporations	(52)	-	7	(38)	14	-	-	-	(69)
Households	(107)	(1)	8	(57)	88	-	-	-	(69)
Stage 3	**(2,280)**	**(8)**	**140**	**(19)**	**(205)**	**-**	**461**	**(6)**	**(1,917)**
General governments	-	-	-	-	-	-	-	(1)	(1)
Other financial corporations	(1)	-	-	-	-	-	-	1	-
Non-financial corporations	(1,246)	(5)	64	(11)	(103)	-	291	(3)	(1,013)
Households	(1,033)	(3)	76	(8)	(102)	-	170	(3)	(903)
POCI	**(46)**	**-**	**1**	**-**	**(64)**	**-**	**-**	**-**	**(109)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(44)	-	1	-	(65)	-	-	-	(108)
Households	(2)	-	-	-	1	-	-	-	(1)
Total	**(2,763)**	**(97)**	**195**	**(78)**	**(161)**	**-**	**461**	**(6)**	**(2,449)**

In the column ‘Transfers between stages’ CLA net changes due to changes in credit risk that triggered reassignments of the related AC loans and advances to customers from Stage 1 at 1 January 2020 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2020 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse (incremental year-on-year allocations) 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 (incremental year-on-year releases) and presented in the line ‘Stage 1’.

15. Financial assets at amortised cost (continued)

Loans and advances at amortised cost to customers (continued)

The profit and loss neutral effect from cross-stage transferring of the related CLA amounts recognized prior to stage re-assignments are presented above in the 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'. This column 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 33 million for the Group and HRK 26 million for the Bank cumulatively for the year 2020, (2019: HRK 35 million for the Group and HRK 28 million for the Bank), which also reflects the unrecognized 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 columns 'Write-offs'.

One significant driver of the CLA movements for the year has been the transfer of the related instruments across different impairment stages caused by the Covid 19 pandemic mainly. The year-end GCA of AC loans and advances to customers that were assigned at 31 December 2020 to a different stage compared to 1 January 2020 (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
2020								
General governments	133	12	-	-	-	-	-	-
Other financial corporations	3	-	-	-	-	-	-	-
Non-financial corporations	4,234	53	136	-	148	-	10	23
Households	1,300	554	186	59	408	49	5	2
Total	**5,670**	**619**	**322**	**59**	**556**	**49**	**15**	**25**

								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
2019								
General governments	37	5	-	-	-	-	-	-
Other financial corporations	2	-	-	-	-	-	-	-
Non-financial corporations	654	116	169	1	117	15	59	25
Households	554	885	176	38	276	34	-	6
Total	**1,247**	**1,006**	**345**	**39**	**393**	**49**	**59**	**31**

15. Financial assets at amortised cost (continued)

Loans and advances at amortised cost to customers (continued)

BANK

in HRK million	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		POCI	
	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
2020								
General governments	133	12	-	-	-	-	-	-
Other financial corporations	3	-	-	-	-	-	-	-
Non-financial corporations	3,876	45	131	-	98	-	10	23
Households	1,043	180	149	51	334	36	5	2
Total	**5,055**	**237**	**280**	**51**	**432**	**36**	**15**	**25**

BANK

in HRK million	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		POCI	
	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
2019								
General governments	17	5	-	-	-	-	-	-
Other financial corporations	2	130	-	-	-	-	-	-
Non-financial corporations	597	51	158	1	111	-	59	25
Households	386	410	146	37	224	30	-	6
Total	**1,002**	**596**	**304**	**38**	**335**	**30**	**59**	**31**

The year-end total GCA of the AC loans and advances to customers that were initially recognized during the year 2020 and not fully de-recognized by 31 December 2020 amounts to HRK 14,027 million for the Group and HRK 13,254 million for the Bank (2019: to HRK 13,874 million for the Group and HRK 13,017 million for the Bank).

The GCA of the AC loans and advances to customers that were held at 1 January 2020 and fully de-recognized (mainly due to matured) during the year 2020 amounts to HRK 4,262 million for the Group and HRK 4,092 million for the Bank (2019: HRK 5,904 million for the Group and HRK 5,852 million 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 2020 amounted to HRK 79 million for the Group and for the Bank (2019: HRK 72 million for the Group and HRK 62 million for the Bank).

16. Debt instruments at amortised cost subject to contractual modifications

Impact of non-significant contractual modifications of debt instruments AC assigned to Stage 2 and 3

		GROUP
in HRK million	Amortised cost before the modification	Net Modification gains/ losses
2020		
Loans and advances		
General governments	2	-
Non-financial corporations	1,214	(3)
Households	563	(6)
Total	**1,779**	**(9)**

		GROUP
in HRK million	Amortised cost before the modification	Net Modification gains/ losses
2019		
Loans and advances		
Non-financial corporations	2	-
Households	30	1
Total	**32**	**1**

		BANK
in HRK million	Amortised cost before the modification	Net Modification gains/ losses
2020		
Loans and advances		
General governments	2	-
Non-financial corporations	1,205	(3)
Households	557	(6)
Total	**1,764**	**(9)**

		BANK
in HRK million	Amortised cost before the modification	Net Modification gains/ losses
2019		
Loans and advances		
Non-financial corporations	2	-
Households	30	1
Total	**32**	**1**

As at 31 December 2020, the total GCA of debt instruments measured at AC, which were impacted by non-significant contractual modifications during the year 2020 amounted to HRK 1,779 million for the Group and for the Bank (2019: HRK 32 million for the Group and for the Bank). For detailes please refer to Note 28.

The impact of contractual modifications (net modification losses) in the profit or loss of the year 2020 amounted to HRK 9 million for the Group and for the Bank (2019: HRK 1 million for the Group and for the Bank).

17. 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
2020											
General governments	166	1	-	-	167	(1)	-	-	-	(1)	166
Credit institutions	59	2	-	-	61	-	-	-	-	-	61
Other financial corporations	19	-	-	-	19	-	-	-	-	-	19
Non-financial corporations	396	41	97	-	534	(9)	(2)	(80)	-	(91)	443
Households	404	39	143	-	586	(14)	(3)	(115)	-	(132)	454
Total	**1,044**	**83**	**240**	**-**	**1,367**	**(24)**	**(5)**	**(195)**	**-**	**(224)**	**1,143**

	GROUP										
	GCA					CLA					
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2019											
General governments	229	1	2	-	232	-	-	-	-	-	232
Credit institutions	91	4	-	-	95	-	-	-	-	-	95
Other financial corporations	11	3	-	-	14	-	-	-	-	-	14
Non-financial corporations	512	73	115	72	772	(5)	(2)	(93)	-	(100)	672
Households	350	171	126	-	647	(25)	(18)	(80)	-	(123)	524
Total	**1,193**	**252**	**243**	**72**	**1,760**	**(30)**	**(20)**	**(173)**	**-**	**(223)**	**1,537**

	BANK										
	GCA					CLA					
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2020											
General governments	132	1	-	-	133	(1)	-	-	-	(1)	132
Credit institutions	57	2	-	-	59	-	-	-	-	-	59
Other financial corporations	15	-	-	-	15	-	-	-	-	-	15
Non-financial corporations	339	36	64	-	439	(7)	(1)	(51)	-	(59)	380
Households	3	6	29	-	38	-	-	(28)	-	(28)	10
Total	**546**	**45**	**93**	**-**	**684**	**(8)**	**(1)**	**(79)**	**-**	**(88)**	**596**

	BANK										
	GCA					CLA					
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2019											
General governments	1	-	-	-	1	-	-	-	-	-	1
Credit institutions	88	4	-	-	92	-	-	-	-	-	92
Other financial corporations	14	2	-	-	16	-	-	-	-	-	16
Non-financial corporations	54	8	24	-	86	(1)	-	(22)	-	(23)	63
Households	2	6	36	-	44	-	-	(28)	-	(28)	16
Total	**159**	**20**	**60**	**-**	**239**	**(1)**	**-**	**(50)**	**-**	**(51)**	**188**

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

17. Trade and other receivables (continued)

Allowances for trade and other receivables

GROUP

in HRK million	As of Jan 2020	Additions	Derecogni-tions	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of Dec 2020
Stage 1	(30)	(9)	1	10	4	-	-	-	(24)
Stage 2	(20)	(1)	3	(18)	31	-	-	-	(5)
Stage 3	(173)	(1)	28	(3)	(59)	-	13	-	(195)
POCI	-	-	-	-	-	-	-	-	-
Total	**(223)**	**(11)**	**32**	**(11)**	**(24)**	**-**	**13**	**-**	**(224)**

GROUP

in HRK million	As of Jan 2019	Additions	Derecogni-tions	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of Dec 2019
Stage 1	(20)	(4)	3	6	(15)	-	-	-	(30)
Stage 2	(32)	-	-	(4)	16	-	-	-	(20)
Stage 3	(412)	(3)	20	(4)	(22)	-	248	-	(173)
POCI	-	-	-	-	-	-	-	-	-
Total	**(464)**	**(7)**	**23**	**(2)**	**(21)**	**-**	**248**	**-**	**(223)**

BANK

in HRK million	As of Jan 2020	Additions	Derecogni-tions	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of Dec 2020
Stage 1	(1)	(8)	1	-	1	-	-	(1)	(8)
Stage 2	-	(1)	1	-	-	-	-	(1)	(1)
Stage 3	(50)	(1)	11	-	(19)	-	8	(28)	(79)
POCI	-	-	-	-	-	-	-	-	-
Total	**(51)**	**(10)**	**13**	**-**	**(18)**	**-**	**8**	**(30)**	**(88)**

BANK

in HRK million	As of Jan 2019	Additions	Derecogni-tions	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of Dec 2019
Stage 1	-	-	-	-	(1)	-	-	-	(1)
Stage 2	-	-	-	-	-	-	-	-	-
Stage 3	(48)	(3)	2	-	(15)	-	14	-	(50)
POCI	-	-	-	-	-	-	-	-	-
Total	**(48)**	**(3)**	**2**	**-**	**(16)**	**-**	**14**	**-**	**(51)**

17. Trade and other receivables (continued)

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 trade and other receivables that were assigned on 31 December 2020 to a different stage compared to 1 January 2020 (or to the initial recognition date, if originated during the year) are summarized below:

GCA transfers between impairment stages trade and other receivables

	GROUP
in HRK million	2020
Transfers between Stage 1 and Stage 2	**208**
To Stage 2 from Stage 1	40
To Stage 1 from Stage 2	168
Transfers between Stage 2 and Stage 3	**34**
To Stage 3 from Stage 2	28
To Stage 2 from Stage 3	6
Transfers between Stage 1 and Stage 3	**47**
To Stage 3 from Stage 1	40
To Stage 1 from Stage 3	7

	GROUP
in HRK million	2019
Transfers between Stage 1 and Stage 2	**318**
To Stage 2 from Stage 1	266
To Stage 1 from Stage 2	52
Transfers between Stage 2 and Stage 3	**31**
To Stage 3 from Stage 2	26
To Stage 2 from Stage 3	5
Transfers between Stage 1 and Stage 3	**63**
To Stage 3 from Stage 1	63
To Stage 1 from Stage 3	-

	BANK
in HRK million	2020
Transfers between Stage 1 and Stage 2	**54**
To Stage 2 from Stage 1	19
To Stage 1 from Stage 2	35
Transfers between Stage 2 and Stage 3	**2**
To Stage 3 from Stage 2	2
To Stage 2 from Stage 3	-
Transfers between Stage 1 and Stage 3	**4**
To Stage 3 from Stage 1	4
To Stage 1 from Stage 3	-

	BANK
in HRK million	2019
Transfers between Stage 1 and Stage 2	**4**
To Stage 2 from Stage 1	4
To Stage 1 from Stage 2	-
Transfers between Stage 2 and Stage 3	**2**
To Stage 3 from Stage 2	2
To Stage 2 from Stage 3	-
Transfers between Stage 1 and Stage 3	**10**
To Stage 3 from Stage 1	10
To Stage 1 from Stage 3	-

17. Trade and other receivables (continued)

The year-end total GCA of the trade and other receivables that were initially recognized during the year 2020 and not fully de-recognized by 31 December 2020 amounts to HRK 573 million for the Group and HRK 540 million for the Bank (2019: HRK 838 million for the Group and HRK 48 million for the Bank).

The GCA of the trade and other receivables that were held on 1 January 2020 and fully de-recognized (matured) during the year 2020 amounts to HRK 69 million for the Group and HRK 46 million for the Bank (2019: HRK 768 million for the Group and HRK 43 million for the Bank).

Financial liabilities measured at amortised cost

For presentation on the balance sheet, the line item ‘Financial liabilities measured at amortised cost’ is used. The liabilities are further broken down into ‘Deposits from banks’, ‘Deposits from customers’, ‘Debt securities issued’ and ‘Other financial liabilities’.
Interest expense is recognised in profit or loss by using effective interest rate method and reported in the line ‘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 reported under the line ‘Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss.

18. Financial liabilities measured at amortised costs

Deposits from banks

	GROUP		BANK	
in HRK million	2019	2020	2019	2020
Overnight deposits	152	312	148	331
Term deposits	7,757	6,713	3,449	2,892
Subordinated loan	1,269	1,285	1,269	1,285
Repurchase agreements	636	738	409	701
Deposits from banks	**9,814**	**9,048**	**5,275**	**5,209**

As at 31 December 2020, Repurchase agreements refer to structural repo received from HNB in amount HRK 700 million with interest rate of 0.25% and maturity in March 2025..

Deposits from customers

	GROUP		BANK	
in HRK million	2019	2020	2019	2020
Overnight deposits	**29,657**	**39,181**	**27,786**	**37,406**
Savings deposits	2,253	2,680	2,253	2,680
Other financial corporations	-	-	-	-
Non-financial corporations	419	420	419	420
Households	1,834	2,260	1,834	2,260
Non-savings deposits	27,404	36,501	25,533	34,726
General governments	1,812	2,441	1,729	2,331
Other financial corporations	866	1,503	745	1,480
Non-financial corporations	9,641	13,743	8,929	12,972
Households	15,085	18,814	14,130	17,943
Term deposits	**21,668**	**20,947**	**20,669**	**19,847**
Deposits with agreed maturity	21,359	20,630	20,360	19,530
Savings deposits	18,586	17,862	18,200	17,458
Other financial corporations	987	1,587	1,108	1,653
Non-financial corporations	1,397	1,325	1,397	1,325
Households	16,202	14,950	15,695	14,480
Non-savings deposits	2,773	2,768	2,160	2,072
General governments	2,342	2,173	2,160	2,072
Other financial corporations	199	277	-	-
Non-financial corporations	232	318	-	-
Households	-	-	-	-
Deposits redeemable at notice	309	317	309	317
General governments	8	8	8	8
Other financial corporations	10	8	10	8
Non-financial corporations	169	187	169	187
Households	122	114	122	114
Repurchase agreements	**-**	**-**	**-**	**-**
General governments	-	-	-	-
Non-financial corporations	-	-	-	-
Deposits from customers	**51,325**	**60,128**	**48,455**	**57,253**
General governments	4,162	4,622	3,897	4,411
Other financial corporations	2,062	3,375	1,863	3,141
Non-financial corporations	11,858	15,993	10,914	14,904
Households	33,243	36,138	31,781	34,797
Other financial liabilities	**879**	**783**	**127**	**163**

18. Financial liabilities measured at amortised costs (continued)

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

Debt securities issued

	GROUP		BANK	
in HRK million	2019	2020	2019	2020
Debt securities issued	672	677	672	677
Bonds	672	677	672	677
Debt securities issued	**672**	**677**	**672**	**677**

As at 31 December 2020, Bank's Deposits from banks include HRK 1.203 million of long-term intra-group funding (2019: HRK 1.851 million) and HRK 1.380 million of supranational funding (2019: HRK 1.278 million).
The subordinated loans are from Erste Group Bank AG and their total amounts to EUR 170 million or HRK 1.281 million (31.12.2019: EUR 170 million). EUR 80 million of subordinated loans are payable in 2021, EUR 60 million in 2022, and EUR 30 million in 2024. The interest rate is in the range of 2.11% - 4.19% plus 3-month EURIBOR.

On 30.11.2017. the Bank issued EUR 50 million of bonds with interest of 1.81% and maturity on 30.11.2022. Then, on 30.11.2018 it issued HRK 300 million of bonds with interest of 1.50% and maturity on 30.11.2023.
As at 31 December 2020, Bank's funding from HBOR amounts to HRK 1.987 million (2019: HRK 1.970 million).

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 2020 is +0.71% (2019: +1.27%).

In case of opening of bankruptcy proceedings against the Bank, claims arising from non-subordinated liabilities shall take priority over subordinated claims. Owners of subordinated debt (Tier 2), will bear losses in bankruptcy proceedings against the Bank. Where the level of capital is still insufficient after the write down of relevant capital instruments (Tier 2), Resolution Authority may apply resolution tools which lead to losses being borne by creditors according to insolvency hierarchy.

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 2020 and 2019.

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. Financial assets whose contractual cash flows are not considered as SPPI are automatically measured at fair value through profit or loss. Other source of fair value through profit or loss measurement relates to financial assets that are part of residual business models, i.e. they are neither held to collect contractual cash flows nor held to either collect contractual cash flows or sell the assets. 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.

On the balance sheet, debt instruments measured at fair value through profit or loss are reported 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 consist of two sub-categories disclosed in Note 21 which are 'mandatorily at fair value through profit or loss' and 'designated at fair value through profit or loss'. Financial assets are mandatorily measured at fair value through profit or loss either because their contractual cash flows are not SPPI 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 '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 '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 21.

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 reported under the line 'Net trading and fair value result' for financial assets held for trading and under the line '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 under the line 'Other similar income' under 'Net interest income' in the statement of profit or loss
- Dividend income is recognised in profit or loss, and reported under the line '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 reported under the line 'Net trading and fair value result'.

Upon derecognition, gains and losses are recognised in profit or loss, and reported under the line 'Net trading result' for financial assets held for trading and under the line '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 under the line '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 under the line '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 under the line 'Net trading result' in the statement of profit or loss.

19. 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. Additional information is disclosed in Note 24.
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 '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 'Other similar income' or 'Other similar expenses' under 'Net interest income'.

						GROUP
	2019			2020		
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	**7,933**	**39**	**35**	**8,178**	**115**	**105**
Interest rate	1,323	21	18	2,066	42	33
Foreign exchange	6,610	18	17	6,112	73	72
Derivatives held in the banking book	**1,523**	**-**	**1**	**891**	**3**	**1**
Interest rate	-	-	-	-	-	-
Foreign exchange	1,523	-	1	891	3	1
Total	**9,456**	**39**	**36**	**9,069**	**118**	**106**

						BANK
	2019			2020		
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	**8,377**	**39**	**35**	**8,216**	**116**	**105**
Interest rate	1,397	21	18	2,066	43	33
Foreign exchange	6,980	18	17	6,150	73	72
Derivatives held in the banking book	**1,523**	**1**	**1**	**891**	**2**	**1**
Interest rate	-	-	-	-	-	-
Foreign exchange	1,523	1	1	891	2	1
Total	**9,900**	**40**	**36**	**9,107**	**118**	**106**

20. Other trading assets

	GROUP		BANK	
in HRK million	2019	2020	2019	2020
Debt securities	186	44	186	44
General governments	186	44	186	44
Other trading assets	**186**	**44**	**186**	**44**

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 2019, financial assets held for trading are treasury bills of the Croatian Ministry of Finance with maturity in 2020, and with interest rate of 0.000%. As of 31 December 2020, financial assets held for trading are bonds issued by the Republic of Croatia with maturity in 2021, and with interest rate of 6.375%.

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

				GROUP
	2019		2020	
in HRK million	Designated	Mandatorily	Designated	Mandatorily
Equity instruments	-	16	-	36
Debt securities	-	183	-	152
Other financial corporations	-	160	-	146
Non-financial corporations		23	-	6
Financial assets mandatorily at FVPL	-	199	-	188
Non-trading financial assets at fair value through profit or loss	**-**	**199**	**-**	**188**

				BANK
	2019		2020	
in HRK million	Designated	Mandatorily	Designated	Mandatorily
Equity instruments	-	10	-	36
Debt securities	-	15	-	33
Other financial corporations	-	15	-	27
Non-financial corporations	-	-	-	6
Financial assets mandatorily at FVPL	-	25	-	69
Non-trading financial assets at fair value through profit or loss	**-**	**25**	**-**	**69**

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. 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 under the line '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 to 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 other foreign currency exchange differences are recognised in other comprehensive income under the line 'Fair value reserve of debt instruments'

In accordance with the above mentioned, 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.

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'.

22. 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 2020 amounts to HRK 130 million for the Group (2019: HRK 162 million) and HRK 114 million for the Bank (2019: HRK 147 million).

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 2020 is provided below:

											GROUP
	GCA				CLA						
in HRK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Amortised cost	Accumulated OCI changes	Fair value
2020											
Debt securities	9,828	1,068	-	10,896	(40)	(31)	-	(71)	10,825	323	11,148
General governments	8,843	1,068	-	9,911	(8)	(31)	-	(39)	9,872	262	10,134
Credit institutions	626	-	-	626	(17)	-	-	(17)	609	38	647
Non-financial corporations	359	-	-	359	(15)	-	-	(15)	344	23	367
Total	**9,828**	**1,068**	**-**	**10,896**	**(40)**	**(31)**	**-**	**(71)**	**10,825**	**323**	**11,148**

22. Financial assets at fair value through other comprehensive income (continued)

GROUP

in HRK million	GCA Stage 1	GCA Stage 2	GCA Stage 3	GCA Total	CLA Stage 1	CLA Stage 2	CLA Stage 3	CLA Total	Amortised cost	Accumulated OCI changes	Fair value
2019											
Debt securities	9,986	199	-	10,185	(26)	(8)	-	(34)	10,151	291	10,442
General governments	9,270	-	-	9,270	(9)	-	-	(9)	9,261	250	9,511
Credit institutions	413	199	-	612	(8)	(8)	-	(16)	596	15	611
Non-financial corporations	303	-	-	303	(9)	-	-	(9)	294	26	320
Total	**9,986**	**199**	**-**	**10,185**	**(26)**	**(8)**	**-**	**(34)**	**10,151**	**291**	**10,442**

BANK

in HRK million	GCA Stage 1	GCA Stage 2	GCA Stage 3	GCA Total	CLA Stage 1	CLA Stage 2	CLA Stage 3	CLA Total	Amortised cost	Accumulated OCI changes	Fair value
2020											
Debt securities	9,284	1,068	-	10,352	(37)	(31)	-	(68)	10,284	306	10,590
General governments	8,299	1,068	-	9,367	(5)	(31)	-	(36)	9,331	245	9,576
Credit institutions	626	-	-	626	(17)	-	-	(17)	609	38	647
Non-financial corporations	359	-	-	359	(15)	-	-	(15)	344	23	367
Total	**9,284**	**1,068**	**-**	**10,352**	**(37)**	**(31)**	**-**	**(68)**	**10,284**	**306**	**10,590**

BANK

in HRK million	GCA Stage 1	GCA Stage 2	GCA Stage 3	GCA Total	CLA Stage 1	CLA Stage 2	CLA Stage 3	CLA Total	Amortised cost	Accumulated OCI changes	Fair value
2019											
Debt securities	9,390	199	-	9,589	(23)	(8)	-	(31)	9,558	256	9,814
General governments	8,674	-	-	8,674	(6)	-	-	(6)	8,668	215	8,883
Credit institutions	413	199	-	612	(8)	(8)	-	(16)	596	15	611
Non-financial corporations	303	-	-	303	(9)	-	-	(9)	294	26	320
Total	**9,390**	**199**	**-**	**9,589**	**(23)**	**(8)**	**-**	**(31)**	**9,558**	**256**	**9,814**

There are no purchased or originated credit-impaired (POCI) debt securities at FVOCI as of 31 December 2020 and 31 December 2019.

Debt securities include bonds issued by the Republic of Croatia and treasury bills issued by the Croatian Ministry of Finance. Treasury bills of the Croatian Ministry of Finance are HRK and EUR denominated debt securities issued at a discount to nominal. These securities are issued with original maturities of 91, 182, 364, 546 and 728 days.

During 2019, the average interest yields on HRK denominated treasury bills were 0.03% for treasury bills with a maturity of 91 days, 0.06% for treasury bills with a maturity of 182 days and 0.08% for treasury bills with a maturity of 364 days. The average interest yields on the currency clause EUR denominated treasury bills were -0.01% for treasury bills with a maturity of 364 days. The average interest yields on EUR treasury bills were 0.05% for treasury bills with a maturity of 546 days.

22. Financial assets at fair value through other comprehensive income (continued)

During 2020, the average interest yields on HRK denominated treasury bills were 0.05% for treasury bills with a maturity of 182 days and 0.07% for treasury bills with a maturity of 364 days. The average interest yields on the currency clause EUR denominated treasury bills were -0.03% for treasury bills with a maturity of 364 days. The average interest yields on EUR treasury bills were 0.06% for treasury bills with a maturity of 364 days.

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 2021 to 2030 and bear coupon interest from 0.250% to 6.500% 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 2022 to 2028 and bear coupon interest from 0.000% to 4.375% p.a. Bonds of Republic of Slovenia are fixed income debt securities denominated in USD and listed on stock exchanges. These bonds have maturities from 2023 to 2024 and bear coupon interest from 5.250% to 5.850% p.a. Bond of United States of America is a fixed income debt security denominated in USD and listed on stock exchanges. That bond has the maturity in 2021 and bears coupon interest of 6.125% p.a. Bond of Republic of Lithuania is a fixed income debt security denominated in USD and listed on stock exchanges. That bond has the maturity in 2022 and bears coupon interest of 1.625% 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 2022 to 2025 and with coupon interest from 1.375% to 2.375% p.a.

Treasury bills of the Croatian Ministry of Finance with maturity in 2021, with interest rate of 0.000% HRK denominated are fixed income debt securities.

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.

The movement in the credit loss allowances for debt securities at FVOCI in the reporting period is provided in the table below:

							GROUP
in HRK million	**As of**	**Additions**	**Derecognitions**	**Transfers between stages**	**Other changes in credit risk (net)**	**Other**	**As of**
	Jan 2020						**Dec 2020**
Stage 1	(26)	(7)	4	8	(21)	2	(40)
Stage 2	(8)	-	-	(29)	6	-	(31)
Stage 3	-	-	-	-	-	-	-
Total	**(34)**	**(7)**	**4**	**(21)**	**(15)**	**2**	**(71)**

							GROUP
in HRK million	**As of**	**Additions**	**Derecognitions**	**Transfers between stages**	**Other changes in credit risk (net)**	**Other**	**As of**
	Jan 2019						**Dec 2019**
Stage 1	(34)	(12)	12	-	8	-	(26)
Stage 2	-	(8)	-	-	-	-	(8)
Stage 3	-	-	-	-	-	-	-
Total	**(34)**	**(20)**	**12**	**-**	**8**	**-**	**(34)**

22. Financial assets at fair value through other comprehensive income (continued)

in HRK million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of
							BANK
	Jan 2020						Dec 2020
Stage 1	(23)	(6)	3	8	(21)	2	(37)
Stage 2	(8)	-	-	(29)	6	-	(31)
Stage 3	-	-	-	-	-	-	-
Total	**(31)**	**(6)**	**3**	**(21)**	**(15)**	**2**	**(68)**

in HRK million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of
							BANK
	Jan 2019						Dec 2019
Stage 1	(32)	(11)	12	-	8	-	(23)
Stage 2	-	(8)	-	-	-	-	(8)
Stage 3	-	-	-	-	-	-	-
Total	**(32)**	**(19)**	**12**	**-**	**8**	**-**	**(31)**

Other disclosure matters

23. Fair value of assets and liabilities

Fair values of financial instruments

All financial instruments are measured at fair value on recurring basis.

Financial instruments measured at fair value in the statement of financial position

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.

Description of the valuation models and inputs

The Group uses only 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.

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.

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.

23. Fair value of assets and liabilities (continued)

According to the described methodology the amount of cumulative CVA-adjustment was HRK 3,841 thousand as at 31 December 2020 (2019: HRK 1,453 thousand) and the total amount of DVA-adjustment amount was HRK 862 thousand as at 31 December 2020 (2019: HRK 55 thousand).

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.

These include shares, government bonds as well as other bonds and funds, which are traded in highly liquid and active markets.

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.

These include 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 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 besides observable parameters typically credit spreads are used as unobservable parameters.

These include shares and funds not quoted, illiquid bonds.

23. Fair value of assets and liabilities (continued)

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

	2019				2020			
in HRK million	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Financial assets HFT	186	39	-	225	44	118	-	162
Derivatives	-	39	-	39	-	118	-	118
Other financial assets HFT	186	-	-	186	44	-	-	44
Non-trading financial assets – FVPL	153	-	46	199	153	-	35	188
Equity instruments	-	-	16	16	26	-	10	36
Debt securities	153	-	30	183	127	-	25	152
Financial assets – FVOCI	8,921	1,150	533	10,604	9,755	1,260	263	11,278
Equity instruments	-	-	162	162	-	2	128	130
Debt securities	8,921	1,150	371	10,442	9,755	1,258	135	11,148
Total assets	**9,260**	**1,189**	**579**	**11,028**	**9,952**	**1,378**	**298**	**11,628**
Liabilities								
Financial liabilities HFT	-	36	-	36	-	106	-	106
Derivatives	-	36	-	36	-	106	-	106
Total liabilities	**-**	**36**	**-**	**36**	**-**	**106**	**-**	**106**

BANK

	2019				2020			
in HRK million	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Financial assets HFT	186	40	-	226	44	118	-	162
Derivatives	-	40	-	40	-	118	-	118
Other financial assets HFT	186	-	-	186	44	-	-	44
Non-trading financial assets – FVPL	8	-	17	25	34	-	35	69
Equity instruments	-	-	10	10	26	-	10	36
Debt securities	8	-	7	15	8	-	25	33
Financial assets – FVOCI	8,482	1,150	329	9,961	9,275	1,261	168	10,704
Equity instruments	-	-	147	147	-	3	111	114
Debt securities	8,482	1,150	182	9,814	9,275	1,258	57	10,590
Total assets	**8,676**	**1,190**	**346**	**10,212**	**9,353**	**1,379**	**203**	**10,935**
Liabilities								
Financial liabilities HFT	-	36	-	36	-	106	-	106
Derivatives	-	36	-	36	-	106	-	106
Total liabilities	**-**	**36**	**-**	**36**	**-**	**106**	**-**	**106**

The allocation of positions to levels and any changes between the levels are reflected at the end of the reporting period.

23. Fair value of assets and liabilities (continued)

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.

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
	2019		2020	
In HRK million	Transfer to Level 1	Transfer to Level 2	Transfer to Level 1	Transfer to Level 2
Securities				
Transfer from Level 1	-	-	-	820
Transfer from Level 2	-	-	-	-
Transfer from Level 3	-	-	-	2
Purchases/sales/expiries	3,094	(1,442)	396	(319)
Total year-to-date change	**3,094**	**(1,442)**	**(424)**	**503**

				BANK
	2019		2020	
In HRK million	Transfer to Level 1	Transfer to Level 2	Transfer to Level 1	Transfer to Level 2
Securities				
Transfer from Level 1	-	-	-	820
Transfer from Level 2	-	-	-	-
Transfer from Level 3	-	-	-	2
Purchases/sales/expiries	3,338	(1,442)	343	(319)
Total year-to-date change	**3,338**	**(1,442)**	**(477)**	**503**

23. 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 2020	Gain/(loss) in P&L	Gain/(loss) in OCI	Purchases	Sales	Transfers out of Level 3	Settle-ments	Currency translation	As of Dec 2020
Assets									
Non-trading financial assets – FVPL	46	(18)	-	35	(7)	(21)	-	-	35
Equity instruments	16	(6)	-	-	-	-	-	-	10
Debt securities	30	(12)	-	35	(7)	(21)	-	-	25
Financial assets – FVOCI	533	-	11	-	(12)	(116)	(154)	1	263
Equity instruments	162	-	10	-	-	(2)	(42)	-	128
Debt securities	371	-	1	-	(12)	(114)	(112)	1	135
Total assets	**579**	**(18)**	**11**	**35**	**(19)**	**(137)**	**(154)**	**1**	**298**

GROUP

in HRK million	As of Jan 2019	Gain/(loss) in P&L	Gain/(loss) in OCI	Purchases	Sales	Transfers out of Level 3	Exchange-rate changes	As of Dec 2019
Assets								
Non-trading financial assets – FVPL	18	(1)	-	29	-	-	-	46
Equity instruments	11	(1)	-	6	-	-	-	16
Debt securities	7	-	-	23	-	-	-	30
Financial assets – FVOCI	423	9	120	14	(25)	-	(8)	533
Equity instruments	111	-	51	-	-	-	-	162
Debt securities	312	9	69	14	(25)	-	(8)	371
Total assets	**441**	**8**	**120**	**43**	**(25)**	**-**	**(8)**	**579**

Significant transfer out of Level 3 is due to transfer of debt security on position Financial assets-fair value through other comprehensive income. Reason for transfer is that during third quarter governemet bond of Montenegro was reclassified from Level 3 to Level 2

BANK

in HRK million	As of Jan 2020	Gain/(loss) in P&L	Gain/(loss) in OCI	Purchases	Sales	Transfers out of Level 3	Settle-ments	Merger	As of Dec 2020
Assets									
Non-trading financial assets – FVPL	17	(18)	-	35	(7)	(21)	-	29	35
Equity instruments	10	(6)	-	-	-	-	-	6	10
Debt securities	7	(12)	-	35	(7)	(21)	-	23	25
Financial assets – FVOCI	329	-	8	-	(13)	(2)	(154)	-	168
Equity instruments	147	-	8	-	-	(2)	(42)	-	111
Debt securities	182	-	-	-	(13)	-	(112)	-	57
Total assets	**346**	**(18)**	**8**	**35**	**(20)**	**(23)**	**(154)**	**29**	**203**

23. 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 out of Level 3	Exchange-rate changes	As of
	Jan 2019							Dec 2019
Assets								
Non-trading financial assets – FVPL	16	1	-	-	-	-	-	17
Equity instruments	9	1	-	-	-	-	-	10
Debt securities	7	-	-	-	-	-	-	7
Financial assets – FVOCI	302	9	37	14	(25)	-	(8)	329
Equity instruments	102	-	45	-	-	-	-	147
Debt securities	200	9	(8)	14	(25)	-	(8)	182
Total assets	**318**	**10**	**37**	**14**	**(25)**	**-**	**(8)**	**346**

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 2020					**GROUP**
Financial assets at fair value through other comprehensive income	Bonds and commercial papers	132	Discounted cash flow	Credit spread	1.63% - 6.52% (4.30%)
31 December 2019					
Financial assets at fair value through other comprehensive income	Bonds and commercial papers	366	Discounted cash flow	Credit spread	1.68% - 4.71% (4.38%)
31 December 2020					**BANK**
Financial assets at fair value through other comprehensive income	Bonds and commercial papers	56	Discounted cash flow	Credit spread	1.63% - 6.52% (5.29%)
31 December 2019					
Financial assets at fair value through other comprehensive income	Bonds and commercial papers	180	Discounted cash flow	Credit spread	1.68% - 4.71% (4.33%)

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 3.51 million and for negative HRK 4.68 million.

23. 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 2020 and 2019.

					GROUP
2020	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					
Cash and cash balances	8,673	8,673	3,336	5,337	-
Financial assets at AC	56,154	53,962	1,939	473	51,550
Loans and advances to banks	4,041	4,039	-	-	4,039
Loans and advances to customers	49,752	47,511	-	-	47,511
Debt securities	2,361	2,412	1,939	473	-
Finance lease receivables	2,460	2,368	-	-	2,368
Trade and other receivables	1,143	1,092	-	-	1,092
LIABILITIES					
Financial liabilities measured at amortised costs	70,636	70,494	-	678	69,816
Deposits from banks	9,048	8,878	-	-	8,878
Deposits from customers	60,128	60,154	-	-	60,154
Debt securities issued	677	678	-	678	-
Other financial liabilities	783	784	-	-	784
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	n/a	195	-	-	195
Irrevocable commitments	n/a	-	-	-	-

					GROUP
2019	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					
Cash and cash balances	5,105	5,105	2,558	2,547	-
Financial assets at AC	51,295	50,497	1,690	-	48,807
Loans and advances to banks	4,367	4,366	-	-	4,366
Loans and advances to customers	45,286	44,441	-	-	44,441
Debt securities	1,642	1,690	1,690	-	-
Finance lease receivables	2,453	2,407	-	-	2,407
Trade and other receivables	1,537	1,508	-	-	1,508
LIABILITIES					
Financial liabilities measured at amortised costs	62,690	62,860	-	673	62,187
Deposits from banks	9,814	9,786	-	-	9,786
Deposits from customers	51,325	51,519	-	-	51,519
Debt securities issued	672	673	-	673	-
Other financial liabilities	879	882	-	-	882
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	n/a	163	-	-	163
Irrevocable commitments	n/a	342	-	-	342

23. Fair value of assets and liabilities (continued)

Financial instruments not measured at fair value (continued)

					BANK
2020	**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					
Cash and cash balances	7,947	7,947	3,095	4,852	-
Financial assets at AC	51,322	49,335	1,756	473	47,106
Loans and advances to banks	3,968	3,966	-	-	3,966
Loans and advances to customers	45,174	43,140	-	-	43,140
Debt securities	2,180	2,229	1,756	473	-
Trade and other receivables	596	569	-	-	569
LIABILITIES					
Financial liabilities measured at amortised costs					
Financial liabilities measured at amortised costs	63,302	63,235	-	678	62,557
Deposits from banks	5,209	5,116	-	-	5,116
Deposits from customers	57,253	57,278	-	-	57,278
Debt securities issued	677	678	-	678	-
Other financial liabilities	163	163	-	-	163
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	n/a	171	-	-	171
Irrevocable commitments	n/a	3	-	-	3

					BANK
2019	**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					
Cash and cash balances	4,339	4,339	2,408	1,931	-
Financial assets at AC	46,817	46,097	1,511	-	44,586
Loans and advances to banks	4,260	4,260	-	-	4,260
Loans and advances to customers	41,093	40,326	-	-	40,326
Debt securities	1,464	1,511	1,511	-	-
Trade and other receivables	188	184	-	-	184
LIABILITIES					
Financial liabilities measured at amortised costs	54,529	54,698	-	673	54,025
Deposits from banks	5,275	5,260	-	-	5,260
Deposits from customers	48,455	48,637	-	-	48,637
Debt securities issued	672	673	-	673	-
Other financial liabilities	127	128	-	-	128
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	n/a	141	-	-	141
Irrevocable commitments	n/a	204	-	-	204

23. 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 financial assets held to maturity are either taken directly from the market or they are determined by directly observable input parameters (i.e. yield curves).

The fair values of deposits and other liabilities, measured at amortised cost, are 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 with the help of regulatory credit conversion factors. The resulting loan equivalents are treated like other on-balance sheet assets.

Fair values of non-financial assets

The following table shows fair values and fair value hierarchy of non-financial instruments at the year-end 2020 and 2019:

					GROUP
in HRK million	**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**
Assets whose Fair Value is disclosed in the notes					
2020					
Investment property	5	6	-	-	6
2019					
Investment property	33	43	-	-	43

					BANK
in HRK million	**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**
Assets whose Fair Value is disclosed in the notes					
2020					
Investment property	2	2	-	-	3
2019					
Investment property	3	3	-	-	3

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.

24. Offsetting

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 2020

							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	118	-	118	(43)	-	-	75
Reverse repurchase agreements	782	-	782	-	-	(782)	-
Total	**900**	**-**	**900**	**(43)**	**-**	**(782)**	**75**

Financial liabilities subject to offsetting and potential offsetting agreements in 2020

							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	106	-	106	(43)	(51)	-	12
Repurchase agreements	738	-	738	-	-	(738)	-
Total	**844**	**-**	**844**	**(43)**	**(51)**	**(738)**	**12**

Financial assets subject to offsetting and potential offsetting agreements in 2020

							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	118	-	118	(43)	-	-	75
Reverse repurchase agreements	821	-	821	-	-	(821)	-
Total	**939**	**-**	**939**	**(43)**	**-**	**(821)**	**75**

Financial liabilities subject to offsetting and potential offsetting agreements in 2020

							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	106	-	106	(43)	(51)	-	12
Repurchase agreements	701	-	701	-	-	(701)	-
Total	**807**	**-**	**807**	**(43)**	**(51)**	**(701)**	**12**

24. Offsetting (continued)

Financial assets subject to offsetting and potential offsetting agreements in 2019

GROUP

in HRK million	Gross amounts in statement of financial position	Amounts set off against financial liabilities	Net amounts in statement of financial position	Potential effects of netting agreements not qualifying for statement of financial position offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral received	Non-cash financial collateral received	
Derivatives	39	-	39	(8)	-	-	31
Reverse repurchase agreements	493	-	493	-	-	(493)	-
Total	**532**	**-**	**532**	**(8)**	**-**	**(493)**	**31**

Financial liabilities subject to offsetting and potential offsetting agreements in 2019

GROUP

in HRK million	Gross amounts in statement of financial position	Amounts set off against financial assets	Net amounts in statement of financial position	Potential effects of netting agreements not qualifying for statement of financial position offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	
Derivatives	36	-	36	(8)	(27)	-	1
Repurchase agreements	636	-	636	-	-	(636)	-
Total	**672**	**-**	**672**	**(8)**	**(27)**	**(636)**	**1**

Financial assets subject to offsetting and potential offsetting agreements in 2019

BANK

in HRK million	Gross amounts in statement of financial position	Amounts set off against financial liabilities	Net amounts in statement of financial position	Potential effects of netting agreements not qualifying for statement of financial position offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral received	Non-cash financial collateral received	
Derivatives	40	-	40	(8)	-	-	32
Reverse repurchase agreements	585	-	585	-	-	(585)	-
Total	**625**	**-**	**625**	**(8)**	**-**	**(585)**	**32**

Financial liabilities subject to offsetting and potential offsetting agreements in 2019

BANK

in HRK million	Gross amounts in statement of financial position	Amounts set off against financial assets	Net amounts in statement of financial position	Potential effects of netting agreements not qualifying for statement of financial position offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	
Derivatives	36	-	36	(8)	(27)	-	1
Repurchase agreements	409	-	409	-	-	(409)	-
Total	**445**	**-**	**445**	**(8)**	**(27)**	**(409)**	**1**

24. Offsetting (continued)

The Bank uses repurchase agreements and master agreements as a means of reducing credit risk of derivative and financing transactions. They qualify as potential offsetting agreements. Master 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 amount of assets and liabilities which would be set off as a result of master agreements is 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 pre-agreed price and time. This ensures that the securities stay in hands of lender as collateral in case that borrower defaults in fulfilling any of its obligations. Offsetting effects from repurchase agreements are disclosed in the column Non-cash financial collateral received/Non-cash financial collateral pledged. 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.

25. 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 items 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 '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 under the line '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 '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. Interest income is reported in the statement of profit or loss under 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
	2019		2020	
Repurchase agreements				
Financial assets at AC	-	-	785	701
Non-trading financial assets at FVPL	-	-	-	-
Financial assets at FVOCI	816	636	85	37
Total – repurchase agreements	**816**	**636**	**870**	**738**

	BANK			
in HRK million	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
	2019		2020	
Repurchase agreements				
Financial assets at AC	-	-	785	701
Financial assets at FVOCI	421	409	-	-
Total – repurchase agreements	**421**	**409**	**785**	**701**

The transferred financial instruments consist of bonds.

The total amount of HRK 870 million (2019: HRK 816 million) for the Group and HRK 785 million for the Bank (2019: HRK 421 million) represents the carrying amount of financial assets under the respective statement of financial position items for which the transferee has a right to sell or repledge.

Liabilities from repo transactions in the amount of HRK 738 million in 2020 (2019: HRK 636 million) for the Group and HRK 701 million (2019: HRK 409 million) for the Bank, which are measured at amortised cost.

The following table shows the fair values of the transferred assets and associated liabilities that have recourse only to the transferred assets. In the Group and the Bank, these assets and liabilities relate to repo transactions.

25. Transfers of financial assets – repurchase transactions and securities lending (continued)

						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
		2019			2020	
Financial assets at AC	-	-	-	800	701	99
Non-trading financial assets at FVPL	-	-	-	-	-	-
Financial assets at FVOCI	816	636	180	85	37	48
Total	**816**	**636**	**180**	**885**	**738**	**147**

						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
		2019			2020	
Financial assets at AC	-	-	-	800	701	99
Financial assets at FVOCI	421	409	12	-	-	-
Total	**421**	**409**	**12**	**800**	**701**	**99**

26. Asset pledged as collateral

The following assets were pledged as security for liabilities:

Pledged assets in HRK million	GROUP		BANK	
	2019	2020	2019	2020
Financial assets at amortised cost	1,242	2,751	1,242	2,751
of which debt securities	25	816	25	816
Financial assets at FVOCI	816	85	421	-
Financial assets at FVPL	-	-	-	-
Non-trading financial asset at FVPL	-	-	-	-
Total	**2,058**	**2,836**	**1,663**	**2,751**

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 security provider’s default was HRK 806 million (2019: HRK 532 million) for the Group and HRK 848 million for the Bank (2019: HRK 634 million).

27. Securities

GROUP

in HRK million	Financial assets At AC	Financial assets Trading assets	Financial assets Mandatorily at FVPL	Financial assets At FVOCI	Total 2019	Financial assets At AC	Financial assets Trading assets	Financial assets Mandatorily at FVPL	Financial assets At FVOCI	Total 2020
Bonds and other interest-bearing securities	**1,642**	**186**	**183**	**10,442**	**12,453**	**2,361**	**44**	**152**	**11,148**	**13,705**
Listed	1,642	186	145	10,263	12,236	2,361	44	4	11,094	13,503
Unlisted	-	-	38	179	217	-	-	148	54	202
Equity-related securities	**-**	**-**	**16**	**162**	**178**	**-**	**-**	**36**	**130**	**166**
Listed	-	-	-	-	-	-	-	26	-	26
Unlisted	-	-	16	162	178	-	-	10	130	140
Equity holdings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**1,642**	**186**	**199**	**10,604**	**12,631**	**2,361**	**44**	**188**	**11,278**	**13,871**

BANK

in HRK million	Financial assets At AC	Financial assets Trading assets	Financial assets Mandatorily at FVPL	Financial assets At FVOCI	Total 2019	Financial assets At AC	Financial assets Trading assets	Financial assets Mandatorily at FVPL	Financial assets At FVOCI	Total 2020
Bonds and other interest-bearing securities	**1,464**	**186**	**15**	**9,814**	**11,479**	**2,180**	**44**	**33**	**10,590**	**12,847**
Listed	1,464	186	-	9,635	11,285	2,180	44	-	10,536	12,760
Unlisted	-	-	15	179	194	-	-	33	54	87
Equity-related securities	**-**	**-**	**10**	**147**	**157**	**-**	**-**	**36**	**114**	**150**
Listed	-	-	-	-	-	-	-	26	-	26
Unlisted	-	-	10	147	157	-	-	10	114	124
Equity holdings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**1,464**	**186**	**25**	**9,961**	**11,636**	**2,180**	**44**	**69**	**10,704**	**12,997**

Investment funds units are reported within bonds and other interest bearing securities.

Securities lending and repurchase transactions are disclosed in Note 25. Transfers of financial assets-repurchase transactions and securities lending.

Risk management

28. Risk management

28.1) 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.

28.2) 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.

28.2) Risk management organisation (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 through responsible, for carrying out the activities of early collection of clients in its jurisdiction as well as review of portfolio quality, and 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.

28.2) Risk management organisation (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. and 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.
Collateral Management is in charge of control, update and maintaining of collaterals and makes policies and standards of assessing and types of accepted collaterals. In that way, it contributes to RWA optimization, and keeps adequate credit protection.

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). 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), Standard Risk Cost (SRC) and cost of capital, participates in the process of profitability modelling, business model development and risk cost planning.

Quantitative Research Department (continued)

QRD is also responsible for the creation of the Recovery 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.

28.2) Risk management organisation (continued)

Furthermore, the Division's objectives are proactive and reactive work on technical, mechanical and physical protection systems, fire protection and occupational safety, 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 Personal Data Protection Act 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.

28.3) Group-wide risk management

Overview
As in prior years, Enterprise-wide Risk Management (ERM) has continued to strengthen its comprehensive framework which includes improvements in Internal Capital Adequacy Process (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. Prudential risk management is ensured by identification, quantification, aggregation and successful management of all material risk types.

ERM is a modular and comprehensive management and steering system and is integral to the Bank and Group’s overall steering and management system. The components necessary to ensure all aspects of ERM, regulatory requirements, but particularly internal value adding needs, can be clustered as follows:

_ Risk appetite statement,
_ Portfolio and risk analysis through Risk materiality assessment, Concentration risk management and Stress testing,
_ Risk-bearing capacity calculation,
_ Risk planning and management through Risk-weighted assets management and capital allocation and
_ 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.

28.3) Group-wide risk management (continued)

Risk Appetite Statement (RAS)

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 RAS acts as a meaningful and binding constraint to business activities within its overall risk appetite through triggers approved by the Management Board. The RAS represents a board-level strategic statement, also serving as a starting point for the implementation of the risk limit framework and is a key component of the EBC Group's ICAAP.
The EBC Group RAS:

- Consists of a set of core risk metrics that provide quantitative direction for the overall risk-return steering,
- Provides qualitative statements in the form of key risk principles that form part of guidelines for managing risks,
- Sets the boundary for limits (strategic and operational) and target setting, and
- Forms a key input into the annual strategic planning process, creating a holistic perspective on capital, liquidity and risk-return trade-offs.

Portfolio and risk analytics

The EBC Group/Bank actively identifies, quantifies, monitors and manages risks within its portfolio.

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. As such, the RMA is an integral part of the ICAAP and serves as a steering tool for senior management. Insights generated by the assessment are used to improve risk management practices and further mitigate risks within the EBC Group. The assessment also serves as an input for the design and definition of the 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.

The Bank has also implemented a process to identify, measure, control, and to manage concentration risk. This process is essential to ensure the long-term viability of the Bank, especially in times of adverse business environment and stressed economic conditions. The concentration risk analysis covers credit risk, market risk, operational risk,liquidity risk and and inter-risk concentrations.

Stress testing and modelling risks represent key, forward-looking elements of ICAAP. Modelling sensitivity of the assets, liabilities and profit or loss and helps in optimising the risk-return profile. Stress testing takes into account severe but plausible scenarios that enrich measuring and risk management system. Comprehensive stress test results are considered in the risk-bearing capacity calculation and the levels of core indicators under stressed conditions are compared to the limits and targets set in the Risk Appetite Statement.

In order to calculate the effect of a given stress scenario on profit and loss and capital adequacy, internally developed model is used to translate macroeconomic variables into risk parameters.

During 2019 and beginning of the 2020 the European Central Bank (ECB) performed a comprehensive assessment of five Croatian banks, following Croatia's request to establish close cooperation between the ECB and Hrvatska narodna banka (the Central bank of Croatia). The exercise comprised an asset quality review (AQR) and a stress test, both of which were based on the methodologies applied by ECB Banking Supervision in its regular comprehensive assessments of banks that have recently been classified as significant or could potentially become significant. That stress test was conducted using the methodology applied in the European Banking Authority's 2018 stress test. The comprehensive assessment shows that the EBC Group do not face any capital shortfalls and did not fall below the relevant thresholds used in the AQR and the stress test.

Risk-bearing Capacity Calculation

In contrast to the regulatory view of Pillar 1, the Risk-bearing Capacity Calculation (RCC) is based on an economic view and determines whether the bank has sufficient capital for covering all risks it is exposed to. This calculation is a cornerstone of the ICAAP as required under Pillar 2 of the Basel III framework. The aim is to identify, measure, aggregate and manage EBC Group's overall risk profile, to report the economic capital adequacy (ECA) and to provide a basis for the allocation of consumed capital.

28.3) Group-wide risk management (continued)

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.).

Management Board and Supervisory Board are reported on capital adequacy on a quarterly basis. The traffic light system embedded in the RCC helps to alert the management in case there is a need to plan and execute actions to either replenish the capital base or to take measures for reducing the risk.

Risk planning and forecasting

The responsibility for risk management within the Bank includes ensuring sound risk planning and forecasting processes. The forecasts determined by risk management are the result of close co-operation with all stakeholders in the Bank's and Group's overall planning process, and in particular with Controlling, Asset Liability Management and the business lines. The risk planning and forecasting process includes both a forward and backward-looking component, focusing on both portfolio and economic environment changes.

Risk parameters and rating models

The Bank has successfully completed the development of the new PD methodology during 2018 and implemented the new parameters at the end of 2019 for the purpose of RWA calculation. The parameters update, in line with the new PD methodology, was performed in December 2020. New LGD methodology has also been applied to the regulator during 2019. Preparation for CCF methodology update has been started in 2020 and CCF development is planned to start in 2021. Development of new rating models for private individuals, corporate-SME clients and Group Corporate and Group Large Corporates are finalized and application to the regulator during 2020. The implementation is expected in 2022.

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

The Bank was required to draw up the Recovery Plan of EBC Group as an annex of the Erste Group Recovery plan. The Recovery Plan identifies options for restoring financial strength and viability in case EBC Group comes under severe economic stress. The plan specifies potential options for the replenishment of capital and liquidity resources of the bank in order to cope with a range of scenarios including both idiosyncratic and market-wide stress (in 2020 one COVID-19 scenario was requested by ECB). The recovery governance described in the plan ensures timely identification and proper management of any recovery situation. Furthermore, the assessment of the Recovery Plan and the recently addressed assessment of the overall recovery capacity are part of the Supervisory Review and Evaluation Process (SREP) assessment. 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.
Finally, the updated version of the Recovery plan was provided to the regulator as an annex of the Group plan.

28.3) Group-wide risk management (continued)

Erste Group collaborates with the resolution authorities in the drawing up of resolution plans based on BaSAG and EU Regulation No 806/2014 establishing the Single Resolution Mechanism (SRM Regulation). Based on a joint decision taken in the Resolution College, Erste Group in April 2020 received notification of the preferred Multiple Point of Entry (MPE) resolution strategy on cross-country level, but a Single Point of Entry (SPE) resolution strategy within a country. This results in being MPE in Austria, the Czech Republic, Croatia, Hungary, Romania and Slovakia.

The Bank Recovery and Resolution Directive (BRRD) introduced the Minimum Requirement for own funds and Eligible Liabilities (MREL), which is – in case of Erste due to the MPE resolution strategy – set on Croatia Resolution Group level.

BRRD and SRMR require that all entities in scope must fulfil their MREL requirements on fully loaded basis from 01.01.2024. Until then, BRRD and SRMR foresee a linear build-up of eligible liabilities with the following intermediate MREL targets: intermediate binding target to be met from 1.1.2022 and intermediate informative target to be met from 1.1.2023. For entities with no MREL shortfall (on fully loaded basis) as of the calibration date, the two intermediate targets above are set equal to the fully loaded MREL target to be met from 01.01.2024.
MREL is expressed as percentage (%) from Risk Weighted Asset of the Croatian Resolution Group. Responsible for the fulfilment of the MREL target at the level of the RH RG is the resolution entity, namely Erste & Steiermärkische Bank d.d. The respective RWA-based MREL Target (defined as percentage) will be re-calibrated each year by SRB and thus be updated on a rolling 12-month to 15-month basis.

28.4) Credit risk

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.

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 to be extended. 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.

28.4) Credit risk (continued)

As mentioned above, 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 Modelling Committee.

Risk grades and categories
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.

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.

Erste Bank rating category	Agencies	Internal
Low Risk	Aaa/AAA … Ba3/BB-	1, 2, 3, 4a, 4b, 4c, 5a, 5b, 5c, A1, A2, B1, B2
Management Attention	B1/B+ … B3/B-	6a, 6b, 7, C1, C2, D1, N
Substandard	Caa1 … CC	8, D2
Non-Performing	C, D	R

28.4) Credit risk (continued)

Credit risk review and monitoring

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.

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 2020 and 31 December 2019.

28.4) Credit risk (continued)

Reconciliation between the gross carrying amount and the net carrying amount of the credit risk exposure components

	GROUP				BANK			
in HRK million	Credit risk exposure	Credit loss allowances	FV adjust-ments	Net carrying amount	Credit risk exposure	Credit loss allowances	FV adjust-ments	Net carrying amount
2020								
Other demand deposits to credit institutions	381	-	-	381	89	-	-	89
Debt instruments held for trading	162	-	-	162	162	-	-	162
Non-trading debt instruments at FVPL	152	-	-	152	33	-	-	33
Debt securities	152	-	-	152	33	-	-	33
Debt instruments at FVOCI	10,896	(71)	252	11,148	10,352	(68)	238	10,590
Debt securities	10,896	(71)	252	11,148	10,352	(68)	238	10,590
Debt instruments at AC	59,313	(3,159)	-	56,154	54,156	(2,834)	-	51,322
Debt securities	2,363	(2)	-	2,361	2,181	(1)	-	2,180
Loans and advances to banks	4,051	(10)	-	4,041	3,978	(10)	-	3,968
Loans and advances to customers	52,899	(3,147)	-	49,752	47,997	(2,823)	-	45,174
Trade and other receivables	1,367	(224)	-	1,143	684	(88)	-	596
Finance lease receivables	2,512	(52)	-	2,460	-	-	-	-
Off balance-sheet exposures	11,221	(150)	-	11,221	8,120	(131)	-	8,120
Total	**86,004**	**(3,656)**	**252**	**82,821**	**73,596**	**(3,121)**	**238**	**70,912**

	GROUP				BANK			
in HRK million	Credit risk exposure	Credit loss allowances	FV adjust-ments	Net carrying amount	Credit risk exposure	Credit loss allowances	FV adjust-ments	Net carrying amount
2019								
Other demand deposits to credit institutions	589	-	-	589	224	-	-	224
Debt instruments held for trading	225	-	-	225	226	-	-	226
Non-trading debt instruments at FVPL	183	-	-	183	15	-	-	15
Debt securities	183	-	-	183	15	-	-	15
Debt instruments at FVOCI	10,185	(34)	257	10,442	9,589	(31)	225	9,814
Debt securities	10,185	(34)	257	10,442	9,589	(31)	225	9,814
Debt instruments at AC	53,950	(2,655)	-	51,295	49,271	(2,454)	-	46,817
Debt securities	1,644	(2)	-	1,642	1,465	(1)	-	1,464
Loans and advances to banks	4,372	(5)	-	4,367	4,264	(4)	-	4,260
Loans and advances to customers	47,934	(2,648)	-	45,286	43,542	(2,449)	-	41,093
Trade and other receivables	1,760	(223)	-	1,537	239	(51)	-	188
Finance lease receivables	2,479	(26)	-	2,453	-	-	-	-
Off balance-sheet exposures	9,753	(104)	-	9,753	6,677	(80)	-	6,677
Total	**79,124**	**(3,042)**	**257**	**76,477**	**66,241**	**(2,616)**	**225**	**63,961**

Breakdown of credit risk exposure

On the next pages the credit risk volume is categorized in the following way:
_ exposure class and financial instrument;
_ counterparty sector and financial instrument;
_ industry and IFRS 9 treatment;
_ industry and risk category;
_ region and risk category;
_ region and IFRS 9 treatment;
_ business segment and risk category;
_ business segment and IFRS 9 treatment.

28.4) Credit risk (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;
_ composition of credit loss allowances;
_ credit risk exposure, forbearance exposure, and credit loss allowances;
_ business segment and collateral;
_ 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;
_ loans and advances to customers by business segment and risk category;
_ loans and advances to customers by business segment and IFRS 9 treatment;
_ non-performing loans and advances to customers by business segment and coverage by loan loss allowances;
_ loans and advances to customers by business segment and currency.

Credit risk exposure by counterparty sector and financial instrument

GROUP

in HRK million	Other demand deposits to credit institu-tions	Debt instru-ments held for trading	Non-trading debt instru-ments at FVPL	Debt instru-ments at FVOCI	At amortised cost: Debt securities	At amortised cost: Loans and advances to banks	At amortised cost: Loans and advances to cus-tomers	Trade and other receiv-ables	Finance lease receiv-ables	Off balance-sheet expo-sures	Total
2020											
Central banks	-	-	-	-	-	3,266	-	-	-	-	3,266
General governments	-	44	-	9,911	2,363	-	9,595	167	72	671	22,823
Credit institutions	381	67	-	626	-	785	-	61	1	617	2,538
Other financial corporations	-	5	146	-	-	-	143	18	12	16	340
Non-financial corporations	-	46	6	359	-	-	20,072	534	1,946	6,504	29,467
Households	-	-	-	-	-	-	23,089	587	481	3,413	27,570
Total	**381**	**162**	**152**	**10,896**	**2,363**	**4,051**	**52,899**	**1,367**	**2,512**	**11,221**	**86,004**

GROUP

in HRK million	Other demand deposits to credit institu-tions	Debt instru-ments held for trading	Non-trading debt instru-ments at FVPL	Debt instru-ments at FVOCI	At amortised cost: Debt securities	At amortised cost: Loans and advances to banks	At amortised cost: Loans and advances to cus-tomers	Trade and other receiv-ables	Finance lease receiv-ables	Off balance-sheet expo-sures	Total
2019											
Central banks	-	-	-	-	-	3,871	-	-	-	-	3,871
General governments	-	186	-	9,270	1,644	-	7,380	232	31	402	19,145
Credit institutions	589	7	-	612	-	501	-	95	1	239	2,044
Other financial corporations	-	11	160	-	-	-	65	14	14	27	291
Non-financial corporations	-	21	23	303	-	-	18,169	772	1,962	5,808	27,058
Households	-	-	-	-	-	-	22,320	647	471	3,277	26,715
Total	**589**	**225**	**183**	**10,185**	**1,644**	**4,372**	**47,934**	**1,760**	**2,479**	**9,753**	**79,124**

28.4) Credit risk (continued)

Credit risk exposure by counterparty sector and financial instrument (continued)

										BANK
					At amortised cost					
in HRK million	Other demand deposits to credit institutions	Debt instruments held for trading	Non-trading debt instruments at FVPL	Debt instruments at FVOCI	Debt securities	Loans and advances to banks	Loans and advances to customers	Trade and other receivables	Off balance-sheet exposures	Total
2020										
Central banks	-	-	-	-	-	3,194	-	-	-	3,194
General governments	-	44	-	9,367	2,181	-	9,210	131	672	21,605
Credit institutions	89	67	-	626	-	784	-	60	514	2,140
Other financial corporations	-	5	27	-	-	-	318	15	109	474
Non-financial corporations	-	46	6	359	-	-	18,947	440	5,459	25,257
Households	-	-	-	-	-	-	19,522	38	1,366	20,926
Total	**89**	**162**	**33**	**10,352**	**2,181**	**3,978**	**47,997**	**684**	**8,120**	**73,596**

										BANK
					At amortised cost					
in HRK million	Other demand deposits to credit institutions	Debt instruments held for trading	Non-trading debt instruments at FVPL	Debt instruments at FVOCI	Debt securities	Loans and advances to banks	Loans and advances to customers	Trade and other receivables	Off balance-sheet exposures	Total
2019										
Central banks	-	-	-	-	-	3,767	-	-	-	3,767
General governments	-	186	-	8,674	1,465	-	7,211	1	400	17,937
Credit institutions	224	7	-	612	-	497	-	92	231	1,663
Other financial corporations	-	12	15	-	-	-	505	16	82	630
Non-financial corporations	-	21	-	303	-	-	17,119	86	4,704	22,233
Households	-	-	-	-	-	-	18,707	44	1,260	20,011
Total	**224**	**226**	**15**	**9,589**	**1,465**	**4,264**	**43,542**	**239**	**6,677**	**66,241**

Contingent liabilities / Off balance-sheet exposures by product

	GROUP		BANK	
	2019	2020	2019	2020
Financial guarantees	3,107	3,702	2,679	3,248
Loan commitments	6,646	7,519	3,998	4,872
Other commitments	3,434	2,765	3,247	2,545
Total	**13,187**	**13,986**	**9,924**	**10,665**

28.4) Credit risk (continued)

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
2020							
Agriculture and forestry	1,062	343	123	-	1,528	-	1,528
Mining	149	4	11	-	164	-	164
Manufacturing	3,671	852	544	62	5,129	3	5,132
Energy	822	69	9	8	908	13	921
Water supply	762	4	2	-	768	-	768
Construction	5,292	212	345	4	5,853	5	5,858
Trade	4,398	910	321	50	5,679	115	5,794
Transport	2,002	533	81	2	2,618	11	2,629
Hotels and restaurants	1,799	2,525	282	33	4,639	5	4,644
Communication	410	83	5	-	498	-	498
Financial and insurance services	5,969	22	3	-	5,994	109	6,103
Real estate	2,032	229	65	-	2,326	6	2,332
Professional activities	1,413	338	111	5	1,867	3	1,870
Administrative and support service activities	470	360	72	-	902	-	902
Public administration	18,118	1,229	-	-	19,347	44	19,391
Education	59	6	1	-	66	-	66
Health services	618	45	2	-	665	-	665
Art	418	109	4	-	531	-	531
Private households	22,099	2,050	1,869	4	26,022	-	26,022
Other	158	23	5	-	186	-	186
Total	**71,721**	**9,946**	**3,855**	**168**	**85,690**	**314**	**86,004**

							GROUP
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
2019							
Agriculture and forestry	1,296	118	85	56	1,555	-	1,555
Mining	140	18	10	-	168	-	168
Manufacturing	3,730	150	438	100	4,418	1	4,419
Energy	828	64	66	-	958	9	967
Water supply	638	4	3	-	645	-	645
Construction	4,689	197	309	9	5,204	2	5,206
Trade	5,256	290	357	48	5,951	141	6,092
Transport	1,507	93	69	1	1,670	-	1,670
Hotels and restaurants	3,801	155	282	33	4,271	4	4,275
Communication	427	20	3	1	451	-	451
Financial and insurance services	5,969	207	2	-	6,178	61	6,239
Real estate	2,037	131	93	9	2,270	2	2,272
Professional activities	1,498	79	103	15	1,695	2	1,697
Administrative and support service activities	877	59	58	-	994	-	994
Public administration	15,739	44	2	-	15,785	186	15,971
Education	51	3	1	-	55	-	55
Health services	525	3	1	-	529	-	529
Art	576	44	5	-	625	-	625
Private households	21,644	1,894	1,590	4	25,132	-	25,132
Other	96	61	5	-	162	-	162
Total	**71,324**	**3,634**	**3,482**	**276**	**78,716**	**408**	**79,124**

28.4) Credit risk (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
2020							
Agriculture and forestry	981	335	121	-	1,437	-	1,437
Mining	138	4	11	-	153	-	153
Manufacturing	3,384	804	531	62	4,781	3	4,784
Energy	805	25	9	8	847	13	860
Water supply	629	3	2	-	634	-	634
Construction	4,997	147	315	4	5,463	6	5,469
Trade	3,008	686	245	50	3,989	-	3,989
Transport	1,701	376	50	2	2,129	11	2,140
Hotels and restaurants	1,697	2,299	243	33	4,272	5	4,277
Communication	277	69	5	-	351	-	351
Financial and insurance services	5,657	4	2	-	5,663	105	5,768
Real estate	1,986	217	65	-	2,268	6	2,274
Professional activities	1,340	257	106	5	1,708	2	1,710
Administrative and support service activities	276	132	54	-	462	-	462
Public administration	17,067	1,201	-	-	18,268	44	18,312
Education	52	4	-	-	56	-	56
Health services	573	13	1	-	587	-	587
Art	410	99	4	-	513	-	513
Private households	16,476	1,653	1,520	4	19,653	-	19,653
Other	145	18	4	-	167	-	167
Total	**61,599**	**8,346**	**3,288**	**168**	**73,401**	**195**	**73,596**

							BANK
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
2019							
Agriculture and forestry	1,174	100	78	-	1,352	-	1,352
Mining	92	17	10	-	119	-	119
Manufacturing	3,249	137	417	93	3,896	1	3,897
Energy	793	26	66	-	885	10	895
Water supply	518	2	2	-	522	-	522
Construction	4,315	164	293	9	4,781	2	4,783
Trade	3,594	196	259	48	4,097	-	4,097
Transport	998	39	50	1	1,088	-	1,088
Hotels and restaurants	3,526	148	264	33	3,971	4	3,975
Communication	307	19	3	1	330	-	330
Financial and insurance services	5,823	207	1	-	6,031	34	6,065
Real estate	1,978	130	93	9	2,210	2	2,212
Professional activities	1,382	63	77	7	1,529	2	1,531
Administrative and support service activities	417	33	49	-	499	-	499
Public administration	14,756	23	-	-	14,779	186	14,965
Education	46	1	-	-	47	-	47
Health services	410	2	1	-	413	-	413
Art	550	42	4	-	596	-	596
Private households	16,228	1,173	1,314	3	18,718	-	18,718
Other	75	58	4	-	137	-	137
Total	**60,231**	**2,580**	**2,985**	**204**	**66,000**	**241**	**66,241**

28.4) Credit risk (continued)

Credit risk exposure by industry and risk category

The following tables present the credit risk exposure of the Group and the Bank broken down by industry and risk category as at 31 December 2020 and 31 December 2019, respectively.

Credit risk exposure by industry and risk category

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2020					
Agriculture, forestry	1,275	121	9	123	1,528
Mining	150	3	-	11	164
Manufacturing	4,210	308	19	595	5,132
Energy	834	70	-	17	921
Water supply	759	7	-	2	768
Construction	5,188	311	10	349	5,858
Trade	4,930	441	73	350	5,794
Transport	2,403	138	6	82	2,629
Hotels and restaurants	3,886	374	68	316	4,644
Communication	462	30	1	5	498
Financial and insurance services	5,930	126	38	9	6,103
Real estate	2,227	28	12	65	2,332
Professional activities	1,676	77	1	116	1,870
Administrative and support service activities	627	202	1	72	902
Public administration	18,716	665	10	-	19,391
Education	53	11	1	1	66
Health services	630	33	1	1	665
Art	472	54	1	4	531
Private households	18,805	4,680	667	1,870	26,022
Others	162	17	2	5	186
Total	**73,395**	**7,696**	**920**	**3,993**	**86,004**
2019					
Agriculture, forestry	1,228	174	12	141	1,555
Mining	154	4	-	10	168
Manufacturing	3,568	256	81	514	4,419
Energy	872	29	-	66	967
Water supply	574	59	9	3	645
Construction	4,450	300	138	318	5,206
Trade	5,226	429	33	404	6,092
Transport	1,462	126	12	70	1,670
Hotels and restaurants	3,733	190	41	311	4,275
Communication	431	15	1	4	451
Financial and insurance services	6,002	234	1	2	6,239
Real estate	2,094	63	14	101	2,272
Professional activities	1,359	216	4	118	1,697
Administrative and support service activities	782	148	6	58	994
Public administration	15,833	135	1	2	15,971
Education	48	6	-	1	55
Health services	465	62	1	1	529
Art	606	13	1	5	625
Private households	18,509	4,412	618	1,593	25,132
Others	132	23	2	5	162
Total	**67,528**	**6,894**	**975**	**3,727**	**79,124**

28.4) Credit risk (continued)

Credit risk exposure by industry and risk category (continued)

					BANK
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2020					
Agriculture, forestry	1,200	107	9	121	1,437
Mining	139	3	-	11	153
Manufacturing	3,915	268	18	583	4,784
Energy	817	26	-	17	860
Water supply	631	1	-	2	634
Construction	5,007	134	9	319	5,469
Trade	3,483	193	40	273	3,989
Transport	2,027	60	1	52	2,140
Hotels and restaurants	3,724	217	60	276	4,277
Communication	325	21	-	5	351
Financial and insurance services	5,602	120	38	8	5,768
Real estate	2,177	21	12	64	2,274
Professional activities	1,551	47	1	111	1,710
Administrative and support service activities	367	40	1	54	462
Public administration	17,777	535	-	-	18,312
Education	46	10	-	-	56
Health services	571	15	-	1	587
Art	460	49	-	4	513
Private households	14,885	2,892	355	1,521	19,653
Others	148	15	-	4	167
Total	**64,852**	**4,774**	**544**	**3,426**	**73,596**

2019					
Agriculture, forestry	1,107	156	11	78	1,352
Mining	105	4	-	10	119
Manufacturing	3,120	211	80	486	3,897
Energy	800	29	-	66	895
Water supply	520	-	-	2	522
Construction	4,224	129	128	302	4,783
Trade	3,616	167	8	306	4,097
Transport	952	75	10	51	1,088
Hotels and restaurants	3,484	159	40	292	3,975
Communication	316	10	-	4	330
Financial and insurance services	5,875	189	-	1	6,065
Real estate	2,041	55	15	101	2,212
Professional activities	1,261	186	-	84	1,531
Administrative and support service activities	428	16	6	49	499
Public administration	14,961	4	-	-	14,965
Education	44	3	-	-	47
Health services	400	11	1	1	413
Art	582	9	1	4	596
Private households	14,337	2,748	314	1,319	18,718
Others	114	19	1	3	137
Total	**58,287**	**4,180**	**615**	**3,159**	**66,241**

28.4) Credit risk (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 2020 and 31 December 2019.

Credit risk exposure by region and risk category

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2020					
Erste Group markets	**64,649**	**5,624**	**808**	**3,753**	**74,834**
Austria	332	3	-	1	336
Croatia	63,247	5,614	808	3,751	73,420
Serbia	5	4	-	1	10
Slovakia	1,057	-	-	-	1,057
Czech Republic	7	-	-	-	7
Hungary	1	3	-	-	4
Other EU countries	**4,837**	**351**	**28**	**25**	**5,241**
Other industrialised countries	**118**	**3**	**-**	**5**	**126**
Emerging markets	**3,791**	**1,718**	**84**	**210**	**5,803**
Southeastern Europe/CIS	3,687	1,715	84	210	5,696
Asia	103	1	-	-	104
Latin Amerika	-	-	-	-	-
Middle East/Africa	1	2	-	-	3
Total	**73,395**	**7,696**	**920**	**3,993**	**86,004**
2019					
Erste Group markets	**60,573**	**5,567**	**892**	**3,549**	**70,581**
Austria	623	2	-	-	625
Croatia	58,917	5,558	892	3,548	68,915
Serbia	9	4	-	1	14
Slovakia	1,023	-	-	-	1,023
Czech Republic	-	-	-	-	-
Hungary	1	3	-	-	4
Other EU countries	**2,830**	**268**	**23**	**27**	**3,148**
Other industrialised countries	**101**	**8**	**-**	**11**	**120**
Emerging markets	**4,024**	**1,051**	**60**	**140**	**5,275**
South Eastern Europe/CIS	4,016	1,048	60	140	5,264
Asia	8	1	-	-	9
Latin Amerika	-	-	-	-	-
Middle East/Africa	-	2	-	-	2
Total	**67,528**	**6,894**	**975**	**3,727**	**79,124**

28.4) Credit risk (continued)

Credit risk exposure by region and risk category (continued)

					BANK
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2020					
Erste Group markets	**60,694**	**4,201**	**540**	**3,387**	**68,822**
Austria	187	3	-	1	191
Croatia	59,437	4,194	540	3,386	67,557
Serbia	5	1	-	-	6
Slovakia	1,057	-	-	-	1,057
Czech Republic	7	-	-	-	7
Hungary	1	3	-	-	4
Other EU countries	**3,514**	**17**	**3**	**9**	**3,543**
Other industrialised countries	**113**	**3**	**-**	**5**	**121**
Emerging markets	**531**	**553**	**1**	**25**	**1,110**
South Eastern Europe/CIS	530	551	1	25	1,107
Asia	-	1	-	-	1
Latin America	-	-	-	-	-
Middle East/Africa	1	1	-	-	2
Total	**64,852**	**4,774**	**544**	**3,426**	**73,596**
2019					
Erste Group markets	**55,907**	**4,136**	**611**	**3,146**	**63,800**
Austria	457	2	-	-	459
Croatia	54,420	4,130	611	3,146	62,307
Serbia	6	1	-	-	7
Slovakia	1,023	-	-	-	1,023
Czech Republic	-	-	-	-	-
Hungary	1	3	-	-	4
Other EU countries	**1,425**	**10**	**3**	**1**	**1,439**
Other industrialised countries	**100**	**3**	**-**	**11**	**114**
Emerging markets	**855**	**31**	**1**	**1**	**888**
Southeastern Europe/CIS	855	28	1	1	885
Asia	-	1	-	-	1
Latin America	-	-	-	-	-
Middle East/Africa	-	2	-	-	2
Total	**58,287**	**4,180**	**615**	**3,159**	**66,241**

28.4) Credit risk (continued)

Credit risk exposure by region 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
2020							
Core markets	**62,330**	**8,426**	**3,621**	**168**	**74,545**	**289**	**74,834**
Austria	268	-	1	-	269	67	336
Croatia	61,387	8,024	3,619	168	73,198	222	73,420
Serbia	9	-	1	-	10	-	10
Slovakia	655	402	-	-	1,057	-	1,057
Czech Republic	7	-	-	-	7	-	7
Hungary	4	-	-	-	4	-	4
Other EU	**4,829**	**387**	**19**	**-**	**5,235**	**6**	**5,241**
Other industrialised countries	**101**	**1**	**5**	**-**	**107**	**19**	**126**
Emerging markets	**4,461**	**1,132**	**210**	**-**	**5,803**	**-**	**5,803**
Southeastern Europe/CIS	4,355	1,131	210	-	5,696	-	5,696
Asia	103	1	-	-	104	-	104
Latin America	-	-	-	-	-	-	-
Middle East/Africa	3	-	-	-	3	-	3
Total	**71,721**	**9,946**	**3,855**	**168**	**85,690**	**314**	**86,004**

GROUP

in HRK million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
2019							
Core markets	**63,402**	**3,214**	**3,304**	**276**	**70,196**	**385**	**70,581**
Austria	619	-	-	-	619	6	625
Croatia	61,745	3,212	3,303	276	68,536	379	68,915
Serbia	11	2	1	-	14	-	14
Slovakia	1,023	-	-	-	1,023	-	1,023
Czech Republic	-	-	-	-	-	-	-
Hungary	4	-	-	-	4	-	4
Other EU	**2,888**	**210**	**27**	**-**	**3,125**	**23**	**3,148**
Other industrialised countries	**108**	**1**	**11**	**-**	**120**	**-**	**120**
Emerging markets	**4,926**	**209**	**140**	**-**	**5,275**	**-**	**5,275**
Southeastern Europe/CIS	4,915	209	140	-	5,264	-	5,264
Asia	9	-	-	-	9	-	9
Latin America	-	-	-	-	-	-	-
Middle East/Africa	2	-	-	-	2	-	2
Total	**71,324**	**3,634**	**3,482**	**276**	**78,716**	**408**	**79,124**

28.4) Credit risk (continued)

Credit risk exposure by region 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
2020							
Core markets	**57,638**	**7,590**	**3,256**	**168**	**68,652**	**170**	**68,822**
Austria	123	-	1	-	124	67	191
Croatia	56,843	7,188	3,255	168	67,454	103	67,557
Serbia	6	-	-	-	6	-	6
Slovakia	655	402	-	-	1,057	-	1,057
Czech Republic	7	-	-	-	7	-	7
Hungary	4	-	-	-	4	-	4
Other EU	**3,216**	**319**	**2**	**-**	**3,537**	**6**	**3,543**
Other industrialised countries	**96**	**1**	**5**	**-**	**102**	**19**	**121**
Emerging markets	**649**	**436**	**25**	**-**	**1,110**	**-**	**1,110**
Southeastern Europe/CIS	647	435	25	-	1,107	-	1,107
Asia	-	1	-	-	1	-	1
Latin America	-	-	-	-	-	-	-
Middle East/Africa	2	-	-	-	2	-	2
Total	**61,599**	**8,346**	**3,288**	**168**	**73,401**	**195**	**73,596**

							BANK
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
2019							
Core markets	**58,007**	**2,376**	**2,972**	**204**	**63,559**	**241**	**63,800**
Austria	453	-	-	-	453	6	459
Croatia	56,520	2,376	2,972	204	62,072	235	62,307
Serbia	7	-	-	-	7	-	7
Slovakia	1,023	-	-	-	1,023	-	1,023
Czech Republic	-	-	-	-	-	-	-
Hungary	4	-	-	-	4	-	4
Other EU	**1,300**	**138**	**1**	**-**	**1,439**	**-**	**1,439**
Other industrialised countries	**102**	**1**	**11**	**-**	**114**	**-**	**114**
Emerging markets	**822**	**65**	**1**	**-**	**888**	**-**	**888**
Southeastern Europe/CIS	819	65	1	-	885	-	885
Asia	1	-	-	-	1	-	1
Latin America	-	-	-	-	-	-	-
Middle East/Africa	2	-	-	-	2	-	2
Total	**60,231**	**2,580**	**2,985**	**204**	**66,000**	**241**	**66,241**

28.4) Credit risk (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 2020 and 31 December 2019.

Credit risk exposure by business segment and risk category

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2020					
Retail	20,326	5,252	716	2,053	28,347
Small and Medium Enterprises	15,148	1,432	129	1,278	17,987
Local Large Corporates	5,091	49	20	289	5,449
Public sector	10,427	236	6	-	10,669
Group Large Corporates	2,294	-	-	78	2,372
Commercial Real Estate	2,423	10	11	285	2,729
Group Market Trading	199	111	37	-	347
Group Market Financial Institutions	691	7	1	-	699
Asset/Liability Management	16,715	466	-	-	17,181
Other	81	133	-	10	224
Total	**73,395**	**7,696**	**920**	**3,993**	**86,004**
2019					
Retail	20,033	4,983	667	1,731	27,414
Small and Medium Enterprises	15,686	1,287	196	1,157	18,326
Local Large Corporates	4,248	175	49	406	4,878
Public sector	8,735	138	-	-	8,873
Group Large Corporates	1,005	23	2	116	1,146
Commercial Real Estate	1,963	29	61	297	2,350
Group Market Trading	267	202	-	-	469
Group Market Financial Institutions	370	19	-	-	389
Asset/Liability Management	15,118	4	-	-	15,122
Other	103	34	-	20	157
Total	**67,528**	**6,894**	**975**	**3,727**	**79,124**

28.4) Credit risk (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
2020					
Retail	15,829	3,193	383	1,651	21,056
Small and Medium Enterprises	12,530	826	89	1,121	14,566
Local Large Corporates	5,088	48	19	289	5,444
Public sector	10,014	103	5	-	10,122
Group Large Corporates	2,220	-	-	76	2,296
Commercial Real Estate	2,422	10	11	279	2,722
Group Market Trading	237	111	37	-	385
Group Market Financial Institutions	685	2	-	-	687
Asset/Liability Management	15,740	465	-	-	16,205
Other	87	16	-	10	113
Total	**64,852**	**4,774**	**544**	**3,426**	**73,596**
2019					
Retail	15,301	3,067	358	1,421	20,147
Small and Medium Enterprises	12,598	679	154	995	14,426
Local Large Corporates	4,182	157	40	402	4,781
Public sector	7,320	13	-	-	7,333
Group Large Corporates	888	-	2	40	930
Commercial Real Estate	1,962	29	61	282	2,334
Group Market Trading	360	202	-	-	562
Group Market Financial Institutions	361	14	-	-	375
Asset/Liability Management	15,207	-	-	-	15,207
Other	108	19	-	19	146
Total	**58,287**	**4,180**	**615**	**3,159**	**66,241**

28.4) Credit risk (continued)

Credit risk exposure by business segment and IFRS 9 treatment

												GROUP
	Credit risk exposure					Credit loss allowances				Coverage ratio		
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	Stage 1	Stage 2	Stage 3	POCI	Stage 2	Stage 3	POCI
2020												
Retail	23,441	2,850	2,049	7	-	(144)	(179)	(1,372)	(1)	6.3%	67.0%	17.3%
Small and Medium Enterprises	12,298	4,270	1,201	99	119	(116)	(302)	(757)	(38)	7.1%	63.0%	38.3%
Local Large Corporates	4,030	1,119	281	19	-	(18)	(78)	(181)	(5)	7.0%	64.5%	26.3%
Public sector	10,464	205	-	-	-	(87)	(6)	-	-	3.1%	148.3%	-
Group Large Corporates	2,273	10	62	10	17	(12)	-	(14)	(2)	1.1%	22.8%	18.5%
Commercial Real Estate	2,026	418	252	33	-	(9)	(48)	(175)	(27)	11.5%	69.4%	83.2%
Group Market Trading	198	-	-	-	149	(8)	-	-	-	-	100.0%	-
Group Market Financial Institutions	698	1	-	-	-	(3)	-	-	-	6.1%	-	-
Asset/Liability Management	16,111	1,068	-	-	2	(31)	(31)	-	-	2.9%	90.2%	-
Other	182	5	10	-	27	(3)	-	(9)	-	5.3%	93.6%	-
Total	**71,721**	**9,946**	**3,855**	**168**	**314**	**(431)**	**(644)**	**(2,508)**	**(73)**	**6.5%**	**65.1%**	**43.6%**

												GROUP
	Credit risk exposure					Credit loss allowances				Coverage ratio		
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	Stage 1	Stage 2	Stage 3	POCI	Stage 2	Stage 3	POCI
2019												
Retail	23,640	2,041	1,726	7	-	(112)	(89)	(1,101)	(1)	4.4%	63.8%	17.2%
Small and Medium Enterprises	16,000	995	1,108	78	145	(138)	(57)	(801)	(26)	5.7%	72.3%	33.0%
Local Large Corporates	4,296	175	326	81	-	(69)	(16)	(173)	(50)	9.0%	53.2%	62.7%
Public sector	8,813	60	-	-	-	(105)	(2)	-	-	3.9%	30.1%	-
Group Large Corporates	977	31	42	73	23	(4)	-	(8)	(2)	1.5%	20.1%	2.3%
Commercial Real Estate	1,925	127	261	37	-	(7)	(28)	(179)	(30)	22.0%	69.2%	77.8%
Group Market Trading	246	-	-	-	223	(5)	-	-	-	-	100.0%	-
Group Market Financial Institutions	387	1	-	-	1	(1)	-	-	-	3.3%	-	-
Asset/Liability Management	14,922	199	-	-	1	(16)	(8)	-	-	4.1%	100.0%	-
Other	118	5	19	-	15	(2)	-	(12)	-	3.5%	64.8%	-
Total	**71,324**	**3,634**	**3,482**	**276**	**408**	**(459)**	**(200)**	**(2,274)**	**(109)**	**5.5%**	**65.4%**	**39.2%**

28.4) Credit risk (continued)

Credit risk exposure by business segment and IFRS 9 treatment (continued)

												BANK
	Credit risk exposure					Credit loss allowances				Coverage ratio		
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	Stage 1	Stage 2	Stage 3	POCI	Stage 2	Stage 3	POCI
2020												
Retail	17,278	2,124	1,647	7	-	(78)	(137)	(1,112)	(1)	6.5%	67.4%	17.3%
Small and Medium Enterprises	10,003	3,420	1,044	99	-	(101)	(253)	(672)	(38)	7.4%	64.4%	38.3%
Local Large Corporates	4,031	1,114	280	19	-	(18)	(78)	(181)	(5)	7.0%	64.6%	26.3%
Public sector	9,935	187	-	-	-	(83)	(6)	-	-	3.0%	93.5%	-
Group Large Corporates	2,198	10	61	10	17	(12)	-	(13)	(2)	1.1%	22.2%	18.5%
Commercial Real Estate	2,025	418	246	33	-	(9)	(48)	(169)	(27)	11.5%	68.7%	83.2%
Group Market Trading	236	-	-	-	149	(8)	-	-	-	-	100.0%	-
Group Market Financial Institutions	687	-	-	-	-	(3)	-	-	-	10.9%	-	-
Asset/Liability Management	15,135	1,068	-	-	2	(26)	(31)	-	-	2.9%	-	-
Other	71	5	10	-	27	(1)	-	(9)	-	5.2%	93.6%	-
Total	**61,599**	**8,346**	**3,288**	**168**	**195**	**(339)**	**(553)**	**(2,156)**	**(73)**	**6.6%**	**65.6%**	**43.6%**

												BANK
	Credit risk exposure					Credit loss allowances				Coverage ratio		
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	Stage 1	Stage 2	Stage 3	POCI	Stage 2	Stage 3	POCI
2019												
Retail	17,459	1,265	1,416	7	-	(61)	(59)	(929)	(1)	4.7%	65.8%	17.2%
Small and Medium Enterprises	12,627	775	953	71	-	(110)	(49)	(694)	(26)	6.4%	72.8%	36.4%
Local Large Corporates	4,218	162	322	78	1	(68)	(15)	(174)	(50)	9.5%	53.7%	62.7%
Public sector	7,318	15	-	-	-	(97)	-	-	-	2.9%	30.1%	-
Group Large Corporates	858	31	31	10	-	(3)	-	(3)	(2)	1.5%	8.5%	17.1%
Commercial Real Estate	1,925	127	244	38	-	(7)	(28)	(166)	(30)	22.0%	68.4%	77.8%
Group Market Trading	338	-	-	-	224	(5)	-	-	-	-	100.0%	-
Group Market Financial Institutions	373	1	-	-	1	(1)	-	-	-	3.5%	-	-
Asset/Liability Management	15,008	199	-	-	-	(16)	(8)	-	-	4.1%	-	-
Other	107	5	19	-	15	(1)	-	(13)	-	3.7%	64.6%	-
Total	**60,231**	**2,580**	**2,985**	**204**	**241**	**(369)**	**(159)**	**(1,979)**	**(109)**	**6.2%**	**66.3%**	**52.7%**

28.4) Credit risk (continued)

Non-performing credit risk exposure and allowances for credit risks

The Bank applies the definition of default on client level. 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.

For the definition of credit risk exposure classified as non-performing, please refer to the description of risk categories in the subsection Internal rating system.

Credit risk allowances in the Group covered 91.8% of the reported non-performing credit risk exposure as at 31 December 2020 and 91.4% in the Bank. For the portion of the non-performing credit risk exposure that is not covered by allowances, the Bank assumes there are sufficient levels of collateral and expected other recoveries.

In the 12 months period ended on 31 December 2020, the non-performing credit risk exposure in the Bank increased by HRK 267 million from HRK 3.2 billion as at 31 December 2019 to HRK 3.4 billion as at 31 December 2020. During the same period, the non-performing credit risk exposure in the Group increased by HRK 267 million , from HRK 3.7 billion as at 31 December 2019 to HRK 4.0 billion as at 31 December 2020.

Credit risk allowances were increased by HRK 614 million in the Group, from HRK 3.0 billion as at 31 December 2019 to HRK 3.7 billion as at 31 December 2020. The increase of credit risk allowances in the Bank during 2020 was HRK 505 million from HRK 2.6 billion as at 31 December 2019 to 3.1 billion as at 31 December 2020.
The higher increase of credit risk allowances in the Group resulted with increase of the coverage of the non-performing credit risk exposure by credit risk allowances from 81.7% up to 91.8%, and the same pattern was recorded in the Bank so coverage of the non-performing credit risk exposure by credit risk allowances is increasing from 82.9% to 91.4%.

The following tables show the coverage of the non-performing credit risk exposure across the reporting segments by credit risk allowances (without taking into consideration collateral) as at 31 December 2020 and 31 December 2019, respectively. The differences in provisioning levels for the segments result from the risk situation in the respective markets and different levels of collateralization.
The NPE ratio is calculated by dividing non-performing credit risk exposure by total credit risk exposure. The non-performing exposure coverage ratio (NPE coverage ratio) is calculated by dividing allowances by non-performing credit risk exposure. Collateral or other recoveries are not taken into account.

28.4) Credit risk (continued)

Non-performing credit risk exposure by business segment and coverage by credit loss allowances

										GROUP
	Non-performing		Credit risk exposure		Credit loss allowances	Collateral for NPE	NPE ratio		NPE coverage (excl. collateral)	Total NPE coverage ratio
in HRK million	Total	AC and FVOCI	Total	AC and FVOCI	AC and FVOCI	AC and FVOCI	Total	AC and FVOCI	AC and FVOCI	AC and FVOCI
2020										
Retail	2,053	2,053	28,347	28,347	(1,696)	535	7.2%	7.2%	82.9%	109.0%
Small and Medium Enterprises	1,278	1,278	17,987	17,868	(1,213)	722	7.1%	7.2%	94.9%	151.4%
Local Large Corporates	289	289	5,449	5,449	(282)	138	5.3%	5.3%	97.5%	145.0%
Public sector	-	-	10,669	10,669	(93)	-	-	-	-	-
Group Large Corporates	78	72	2,372	2,355	(28)	34	3.3%	3.1%	38.6%	85.6%
Commercial Real Estate	285	285	2,729	2,729	(259)	202	10.4%	10.4%	91.1%	162.1%
Group Market Trading	-	-	347	198	(8)	-	0.1%	0.1%	-	-
Group Market Financial Institutions	-	-	699	699	(3)	-	-	-	-	-
Asset/Liability Management	-	-	17,181	17,179	(62)	-	-	-	-	-
Other	10	10	224	197	(12)	-	4.5%	5.1%	123.0%	123.0%
Total	**3,993**	**3,987**	**86,004**	**85,690**	**(3,656)**	**1,631**	**4.6%**	**4.7%**	**91.8%**	**132.8%**

										GROUP
	Non-performing		Credit risk exposure		Credit loss allowances	Collateral for NPE	NPE ratio		NPE coverage (excl. collateral)	Total NPE coverage ratio
in HRK million	Total	AC and FVOCI	Total	AC and FVOCI	AC and FVOCI	AC and FVOCI	Total	AC and FVOCI	AC and FVOCI	AC and FVOCI
2019										
Retail	1,731	1,731	27,414	27,414	(1,303)	515	6.3%	6.3%	75.3%	105.0%
Small and Medium Enterprises	1,157	1,157	18,326	18,181	(1,022)	636	6.3%	6.4%	88.4%	143.4%
Local Large Corporates	406	406	4,878	4,878	(308)	140	8.3%	8.3%	76.0%	110.4%
Public sector	-	-	8,873	8,873	(107)	-	-	-	-	-
Group Large Corporates	116	116	1,146	1,123	(14)	33	10.1%	10.3%	12.3%	40.8%
Commercial Real Estate	297	297	2,350	2,350	(244)	204	12.7%	12.7%	82.0%	150.5%
Group Market Trading	-	-	469	246	(5)	-	0.1%	0.1%	-	-
Group Market Financial Institutions	-	-	389	388	(1)	-	-	-	-	-
Asset/Liability Management	-	-	15,122	15,121	(24)	-	-	-	-	-
Other	20	20	157	142	(14)	-	12.2%	13.5%	75.3%	75.3%
Total	**3,727**	**3,727**	**79,124**	**78,716**	**(3,042)**	**1,528**	**4.7%**	**4.7%**	**81.7%**	**122.7%**

28.4) Credit risk (continued)

Non-performing credit risk exposure by business segment and coverage by credit loss allowances (continued)

BANK

in HRK million	Non-performing Total	Non-performing AC and FVOCI	Credit risk exposure Total	Credit risk exposure AC and FVOCI	Credit loss allowances AC and FVOCI	Collateral for NPE AC and FVOCI	NPE ratio Total	NPE ratio AC and FVOCI	NPE coverage (excl. collateral) AC and FVOCI	Total NPE coverage ratio AC and FVOCI
2020										
Retail	1,651	1,651	21,056	21,056	(1,328)	459	7.8%	7.8%	80.6%	108.3%
Small and Medium Enterprises	1,121	1,121	14,566	14,566	(1,064)	632	7.7%	7.7%	95.0%	151.4%
Local Large Corporates	289	289	5,444	5,444	(282)	137	5.3%	5.3%	97.4%	145.0%
Public sector	-	-	10,122	10,122	(89)	-	-	-	-	-
Group Large Corporates	76	70	2,296	2,279	(27)	33	3.3%	3.1%	38.2%	84.9%
Commercial Real Estate	279	279	2,722	2,722	(253)	202	10.2%	10.2%	91.0%	163.4%
Group Market Trading	-	-	385	236	(8)	-	0.1%	0.1%	-	-
Group Market Financial Institutions	-	-	687	687	(3)	-	-	-	-	-
Asset/Liability Management	-	-	16,205	16,203	(57)	-	-	-	-	-
Other	10	10	113	86	(10)	-	8.8%	11.5%	105.2%	105.2%
Total	**3,426**	**3,420**	**73,596**	**73,401**	**(3,121)**	**1,463**	**4.7%**	**4.7%**	**91.4%**	**134.1%**

BANK

in HRK million	Non-performing Total	Non-performing AC and FVOCI	Credit risk exposure Total	Credit risk exposure AC and FVOCI	Credit loss allowances AC and FVOCI	Collateral for NPE AC and FVOCI	NPE ratio Total	NPE ratio AC and FVOCI	NPE coverage (excl. collateral) AC and FVOCI	Total NPE coverage ratio AC and FVOCI
2019										
Retail	1,421	1,421	20,147	20,147	(1,050)	464	7.1%	7.1%	74.1%	106.8%
Small and Medium Enterprises	995	995	14,426	14,426	(879)	597	6.9%	6.9%	88.4%	148.4%
Local Large Corporates	402	402	4,781	4,780	(307)	140	8.4%	8.4%	76.3%	111.1%
Public sector	-	-	7,333	7,333	(97)	-	-	-	-	-
Group Large Corporates	40	40	930	930	(8)	33	4.3%	4.3%	19.6%	101.2%
Commercial Real Estate	282	282	2,334	2,334	(231)	204	12.1%	12.1%	82.0%	154.3%
Group Market Trading	-	-	562	338	(5)	-	-	0.1%	-	-
Group Market Financial Institutions	-	-	375	374	(1)	-	-	-	-	-
Asset/Liability Management	-	-	15,207	15,207	(24)	-	-	-	-	-
Other	19	19	146	131	(14)	-	13.2%	14.7%	72.2%	72.2%
Total	**3,159**	**3,159**	**66,241**	**66,000**	**(2,616)**	**1,438**	**4.8%**	**4.8%**	**82.9%**	**128.4%**

28.4) Credit risk (continued)

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:

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 stage 3 the credit loss allowances are calculated as lifetime ECL.

POCI
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. POCI asset is a subject to lifetime expected credit losses from initial recognition until full derecognition.

28.4) Credit risk (continued)

Quantitative criteria

Quantitative 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. In order for the SICR to occur for a particular financial instrument, both the relative and absolute thresholds need to be breached. The relative measure is calculated as ratio between current annualized PD and annualized PD value on initial recognition. The breach means that such ratio has reached or is higher than established threshold. These relative thresholds for SICR assessment are established at PD segment level and/or client rating level for each consolidated entity, as necessary, and are subject to initial and on-going validation.

Relative thresholds for SICR assessment

	Threshold interval (x times)	
in EUR million	**Min**	**Max**
2020		
Erste&Steiermärkische Bank d.d.	1.13	3.13
Total	**1.13**	**3.13**
2019		
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. The main rule in those cases is that downgrading of the ratings would lead to a positive conclusion on SICR.

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 positively concluded.

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) and information from the early-warning system (if it is not sufficiently considered in the rating). 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 COVID-19 pandemic and related economic impacts. Please see Covid-19 disclosures in the next chapter.

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.

28.4) Credit risk (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, repayment type and exposure at default estimation.

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
- 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. 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 and estimated exposure at default (EAD). LGD is expressed as a percentage loss per unit exposure at the time of default (EAD).

28.4) Credit risk (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.

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’), which resulted in introducing a baseline forecast and a number of alternative scenarios for selected macroeconomic variables. These are derived, together with their probabilities of occurrence, as a deviation from baseline forecasts, where 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 life time returns back to through the cycle observations in the year four immediately.

Thus, the unbiased, probability-weighted ECL 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. We are disclosing sensitivity of the staging and ECL on macro scenarios in the Covid-19 section below.

28.4) Credit risk (continued)

Baseline, upside and downside scenarios of GDP development

GDP growth in %	Scenario	Probability weight	2020	2021	2022	2023
2020						
Erste&Steiermärkische Bank d.d.	Upside	8%	(9.0)	8.2	9.0	9.1
	Baseline	40%	(9.0)	5.2	3.6	4.0
	Downside	52%	(9.0)	(2.5)	(1.4)	0.9
			2019	**2020**	**2021**	**2022**
2019						
Erste&Steiermärkische Bank d.d.	Upside	10%	3.2	4.1	5.3	6.3
	Baseline	50%	3.2	2.5	2.4	2.4
	Downside	40%	3.2	0.9	(0.5)	(1.5)

As of December 2020, the GDP development prediction is reflecting COVID-19 crisis through the fall in GDP in 2020 and high probability of downside scenario. Following the availability of the first to third quarter 2020 data, YTD GDP drop stands at 8.4% y/y (first quarter +0.2%; second quarter -15.4%; third quarter -10.0%). Recent fourth quarter figures are suggesting further normalization on the industry side as industry recorded positive growth in October, better private consumption performance vs. third quarter (confirmed by both October and November data) and labour market is also holding well overall. Given that in the fourth quarter tourism is no longer having strong role on shaping the headline and that COVID-19 containment measures were introduced only at the very end of November and still being less strict than in many CEE economies, fourth quarter 2020 GDP drop in expected to be around 8.5%. Group forecasted drop of GDP for Croatia at 9.9%, but following aforementioned reasons EBC suggested drop of GDP by 9% to be used as a scenario for year 2020.

Covid-19

The Covid-19 pandemic has been causing 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.

Effect on customers

Immediately upon the crisis showing severe economic impacts in Croatia (governmental decisions on lockdowns), initiatives were started aiming to, on the one hand support Erste clients to the utmost extent, and on the other hand, manage the respective risks and bearing the responsibility of Erste bank towards all stakeholders in mind.

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 on April 2nd, 2020. The legislative and non-legislative moratoria schemes were introduced in response to the COVID-19 pandemic and have a generally preventative nature and are not borrower specific, as they aim to address systemic risks that may occur in the wider EU economy in the future. Bank implemented EBA guidelines on legislative and non-legislative moratoria into its processes and internal documentation. And is aligned with the Guidelines.

Croatian Government applied non-legislative moratorium, At its session on Tuesday, March 17th 2020, the Croatian Government proposed certain measures for Commercial banks to mitigate the effects of the special circumstances caused by the coronavirus epidemic like introduction of the “Stand-still” arrangement, (suspension of execution of all measures of enforced collection against all debtors for a period of three months), loans for liquidity and working capital with a repayment period of up to three years; moratoria on credit liabilities.

Criteria for non – legislative moratorium are defined by the Croatian National Bank in it's Circular from March 19, 2020.

Also, Erste Group gave a guidance to the entities in respect of underwriting, reporting and classification processes. In addition to programmes with standard parameters that were defined at a very early stage of the crisis and should support an efficient processing, also individual solutions were agreed with clients that did not meet all predefined requirements.

28.4) Credit risk (continued)

Credit risk exposure of non-financial corporations by industry – measures applied in response to the COVID-19 crisis

GROUP				
in HRK million	Loans and advances subject to EBA-compliant moratoria	Other loans and advances subject to COVID-19-related forbearance measures	Newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis	Public guarantee received in the context of the COVID-19 crisis
2020				
Agriculture, forestry	11	-	38	33
Mining	-	-	-	-
Manufacturing	65	3	33	27
Energy	6	-	-	-
Water supply	8	-	-	-
Construction	45	9	1	-
Trade	283	10	17	14
Transport	307	17	2	2
Hotels and restaurants	2,808	24	4	2
Communication	30	1	1	1
Financial and insurance services	-	-	-	-
Real estate	85	1	-	-
Professional activities	21	6	2	1
Administrative and support service activities	329	3	-	-
Public administration	-	-	-	-
Education	-	-	-	-
Health services	2	-	6	5
Art	10	-	-	-
Others	3	-	-	-
Total	**4,013**	**74**	**104**	**85**

BANK				
in HRK million	Loans and advances subject to EBA-compliant moratoria	Other loans and advances subject to COVID-19-related forbearance measures	Newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis	Public guarantee received in the context of the COVID-19 crisis
2020				
Agriculture, forestry	11	-	38	33
Mining	-	-	-	-
Manufacturing	58	3	33	27
Energy	-	-	-	-
Water supply	6	-	-	-
Construction	45	9	1	-
Trade	208	8	17	14
Transport	200	11	2	2
Hotels and restaurants	2,553	24	4	2
Communication	25	1	1	1
Financial and insurance services	-	-	-	-
Real estate	85	1	-	-
Professional activities	17	6	2	1
Administrative and support service activities	110	1	-	-
Public administration	-	-	-	-
Education	-	-	-	-
Health services	2	-	6	5
Art	7	-	-	-
Others	3	-	-	-
Total	**3,330**	**64**	**104**	**85**

Loans and advances of non-financial corporations to which the measures applied in the response to Covid-19 were granted and are currently valid (have not been expired), amounted to HRK 4.0 billion as of 31 December 2020 on a Group level and HRK 3.5 billion on a Bank level. Measures mostly refer to EBA-compliant moratoria. The highest amount of granted moratoria measures refers to hotels and restaurants both on Bank and on Group level.

28.4) Credit risk (continued)

Effect on business
In March 2020, risk management and business divisions started a joint initiative aiming to quickly provide a harmonised guidance for a focused industry approach within Erste Group, reflecting the changed economic environment. Industries and sub-industries were categorised into high, medium and low expected impacts due to Covid-19 based on a combination of research material, feedback collected from client meetings and single name analyses, both centrally as well as in the entities.

Main driver for assigning an industry classification (at the beginning three, later-on four: green, yellow, amber and red) was the assessment of impacts of the crisis on the specific (sub)industry. E.g. less affected indus-tries like food retailers or construction were assessed as “green”. Additionally, given the high importance of the tourism industry in Croatia, the Bank was guided by expert decisions per individual client from that indus-try, and for the purpose of early detection of high-risk clients from the perspective of Covid-19 impact. The classifications are regularly reviewed on a 12-month rolling forecast basis to take current developments into account. A respective business and risk strategy for the (sub)industries was formulated based on the assess-ment. The assessed risk for the specific (sub)industry can lead to strategic recommendations (e.g. to tempo-rarily limit financing for specific categories to existing clients only) and/or the revision of underwriting stand-ards. This approach was aligned with all affected entities and business lines and approved by the respective governance bodies of Erste Group.

Given the guidelines prescribed by the Croatian National Bank, the Bank’s strategy was to set additional provisions level for clients who meet the prescribed requirements for the moratorium, and who are classified as high-risk clients independent of industry.

Exposures in particular industries that belong to red sub-industries are referred to as “high risk” in the following tables.

28.4) Credit risk (continued)

Credit risk exposure and credit loss allowances by industry and IFRS9 treatment – industry heatmap

								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
2020								
Agriculture and forestry	897	309	115	-	1,321	-	1,321	(108)
Mining	54	4	11	-	69	-	69	(10)
Manufacturing	3,398	866	557	61	4,882	3	4,885	(430)
of which high risk	1	155	18	-	174	-	174	(21)
Energy and water supply	1,827	34	11	8	1,880	15	1,895	(48)
Construction	1,971	151	293	4	2,419	2	2,421	(261)
Trade	2,370	628	258	43	3,299	-	3,299	(250)
of which high risk	-	216	18	-	234	-	234	(24)
Transport and communication	4,642	470	70	2	5,184	11	5,195	(88)
of which high risk	-	34	-	-	34	-	34	(2)
Hotels and restaurants	1,871	2,414	225	33	4,543	5	4,548	(387)
Financial and insurance services	10,437	24	2	-	10,463	105	10,568	(38)
Real estate and housing	2,111	133	165	6	2,415	10	2,425	(108)
Services	955	355	46	7	1,363	-	1,363	(71)
of which high risk	26	248	24	-	298	-	298	(37)
Public administration	17,811	1,201	-	-	19,012	44	19,056	(78)
Education, health and art	1,406	112	5	-	1,523	-	1,523	(39)
Private households	16,477	1,653	1,520	4	19,654	-	19,654	(1,194)
Other	117	14	10	-	141	-	141	(15)
Total	**66,344**	**8,368**	**3,288**	**168**	**78,168**	**195**	**78,363**	**(3,125)**

2019								
Agriculture and forestry	1,075	100	73	-	1,248	-	1,248	(75)
Mining	26	17	10	-	53	-	53	(8)
Manufacturing	3,385	141	443	93	4,062	-	4,062	(304)
Energy and water supply	1,570	34	68	-	1,672	12	1,684	(92)
Construction	1,631	119	303	7	2,060	-	2,060	(304)
Trade	3,060	196	226	40	3,522	-	3,522	(223)
Transport and communication	3,866	51	67	2	3,986	-	3,986	(157)
Hotels and restaurants	3,722	149	268	33	4,172	4	4,176	(209)
Financial and insurance services	7,542	229	1	-	7,772	34	7,806	(27)
Real estate and housing	1,935	254	162	17	2,368	4	2,372	(145)
Services	1,163	70	36	8	1,277	-	1,277	(45)
Public administration	15,361	23	-	-	15,384	187	15,571	(33)
Education, health and art	1,256	39	5	-	1,300	-	1,300	(32)
Private households	16,227	1,173	1,314	4	18,718	-	18,718	(952)
Other	99	7	9	-	115	-	115	(11)
Total	**61,918**	**2,602**	**2,985**	**204**	**67,709**	**241**	**67,950**	**(2,617)**

For the COVID-19 stage overlays purposes, the Bank uses the actual NACE code which represents the client's core business and on the basis of which client generates revenue. Based on that NACE code, the client is assigned an industry and ultimately the color from the industry heatmap. Credit risk exposure includes Cash balances at central banks.

28.4) Credit risk (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.

We have concluded so far that all moratoria fulfil the conditions as defined in the EBA guidelines published on 25 March and 2 April 2020. Relief offered to credit owners thus did not result in an automatic transfers from Stage 1 to Stage 2. However, the Bank continues to perform individual assessments whether there are other circumstances that would lead to forbearance or default classification.

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.
The Bank has addressed expected SICR by introducing Covid-19 portfolio overlays. We divided the portfolio in private individuals (PIs) and non-private individuals (non-PIs) and assessed the customers by taking into account any Covid-19 related relieve measure granted as well as the internal industry heat-map and correspond-ing PD levels. Based on this assessment and individual reviews, customers were migrated to stage 2, i.e. life-time ECL measure. The industry heat map and the portfolio overlays are subject to regular reviews.

The Bank will assess releases of Covid-19 portfolio overlays for PI portfolios once the moratoria are lifted. When moratoria do no longer distort DPD information, behavioural scoring will allow proper SICR assessment. In case of non-PI portfolios, release of the overlays will be assessed after a consistent improvement of the macro indicators is observed.

The sensitivity analyses tables below present staging splits of the current performing exposure and ECL. Movements of exposures between performing stages and resulting changes in ECL triggered by effect of Covid-19 SICR overlays and FLI macro overlays is shown.

Effects on industry segments, high risk industry subsegments and geographical segment are disclosed.

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.

Sensitivity analyses – Forward looking information (FLI) and stage overlays due to the Covid-19 pandemic

Impact on credit risk exposure

						BANK
	Current status - parameters (FLI shifted)		Effect of stage overlays due to Covid-19		Effect of point in time parameters- (before FLI shift)	
in HRK million	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
2020						
Erste&Steiermärkische Bank d.d.	66,344	8,368	3,445	(3,442)	769	(766)
2019						
Erste&Steiermärkische Bank d.d.	61,918	2,602			337	(335)

Impact on credit loss allowances

						BANK
	Current status – parameters (FLI shifted)		Effect of stage overlays due to Covid-19		Effect of point in time parameters (before FLI shift)	
in HRK million	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
2020						
Erste&Steiermärkische Bank d.d.	(341)	(555)	(72)	238	127	128
2019						
Erste&Steiermärkische Bank d.d.	(368)	(159)	-	-	65	27

28.4) Credit risk (continued)

Impact on credit risk exposure by industry

						BANK
	Current status - parameters (FLI shifted)		Current status without stage overlays due to COVID-19		Point in time parameters (before FLI shift)	
in HRK million	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
2020						
Agriculture and forestry	897	309	979	227	916	289
Mining	54	4	57	1	56	3
Manufacturing	3,398	866	3,857	407	3,537	727
of which high risk	1	155	154	3	1	155
Energy and water supply	1,827	34	1,827	34	1,827	34
Construction	1,971	151	1,980	142	2,067	55
Trade	2,370	628	2,689	309	2,437	561
of which high risk	-	216	147	69	-	216
Transport and communication	4,642	470	5,030	83	4,666	447
of which high risk	-	34	25	9	-	34
Hotels and restaurants	1,871	2,414	3,468	817	1,872	2,413
Financial and insurance services	10,437	24	10,438	24	10,437	24
Real estate and housing	2,111	133	2,147	97	2,112	132
Services	955	355	1,203	108	965	346
of which high risk	26	248	227	47	26	248
Public administration	17,811	1,201	17,811	1,201	18,119	893
Education, health and art	1,406	112	1,478	40	1,408	110
Households	16,477	1,653	16,703	1,426	16,575	1,554
Other	117	14	122	10	119	14
Total	**66,344**	**8,368**	**69,789**	**4,926**	**67,113**	**7,602**
2019						
Agriculture and forestry	1,075	100	1,075	100	1,073	102
Mining	26	17	26	17	26	17
Manufacturing	3,385	141	3,385	141	3,418	108
Energy and water supply	1,570	34	1,570	34	1,569	34
Construction	1,631	119	1,631	119	1,695	55
Trade	3,060	196	3,060	196	3,133	123
Transport and communication	3,866	51	3,866	51	3,843	74
Hotels and restaurants	3,722	149	3,722	149	3,783	89
Financial and insurance services	7,542	229	7,542	229	7,542	229
Real estate and housing	1,935	254	1,935	254	2,021	168
Services	1,163	70	1,163	70	1,180	53
Public administration	15,361	23	15,361	23	15,362	23
Education, health and art	1,256	39	1,256	39	1,290	5
Households	16,227	1,173	16,227	1,173	16,218	1,182
Other	99	7	99	7	102	5
Total	**61,918**	**2,602**	**61,918**	**2,602**	**62,255**	**2,267**

28.4) Credit risk (continued)

Impact on credit loss allowances by industry

						BANK
	Current status - parameters (FLI shifted)		Current status without stage overlays due to Covid-19		Point in time parameters (before FLI shift)	
in HRK million	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
2020						
Agriculture and forestry	(12)	(19)	(15)	(13)	(6)	(11)
Mining	-	-	(1)	-	-	-
Manufacturing	(32)	(54)	(41)	(36)	(17)	(30)
of which high risk	-	(3)	(2)	-	-	(2)
Energy and water supply	(29)	(6)	(29)	(6)	(16)	(6)
of which high risk	-	-	-	-	-	-
Construction	(23)	(8)	(23)	(8)	(14)	(3)
Trade	(23)	(35)	(29)	(22)	(12)	(21)
of which high risk	-	(7)	(2)	(3)	-	(4)
Transport and communication	(20)	(25)	(26)	(5)	(13)	(17)
of which high risk	-	(2)	-	(1)	-	(1)
Hotels and restaurants	(8)	(228)	(40)	(88)	(5)	(196)
Financial and insurance services	(36)	-	(36)	-	(25)	-
Real estate and housing	(14)	(12)	(14)	(9)	(9)	(10)
Services	(7)	(23)	(11)	(8)	(3)	(16)
of which high risk	-	(15)	(4)	(2)	-	(11)
Public administration	(45)	(33)	(45)	(33)	(28)	(30)
Education, health and art	(24)	(11)	(27)	(2)	(12)	(8)
Households	(67)	(100)	(71)	(87)	(50)	(79)
Other	(1)	(1)	(5)	-	(4)	-
Total	**(341)**	**(555)**	**(413)**	**(317)**	**(214)**	**(427)**
2019						
Agriculture and forestry	(10)	(6)	(10)	(6)	(8)	(7)
Mining	-	-	-	-	-	-
Manufacturing	(28)	(10)	(28)	(10)	(23)	(11)
Energy and water supply	(23)	(4)	(23)	(4)	(17)	(4)
Construction	(16)	(7)	(16)	(7)	(16)	(3)
Trade	(22)	(8)	(22)	(8)	(18)	(7)
Transport and communication	(106)	(3)	(106)	(3)	(67)	(4)
Hotels and restaurants	(24)	(17)	(24)	(17)	(22)	(11)
Financial and insurance services	(18)	(8)	(18)	(8)	(14)	(8)
Real estate and housing	(8)	(36)	(8)	(36)	(16)	(15)
Services	(7)	(3)	(7)	(3)	(6)	(3)
Public administration	(32)	(1)	(32)	(1)	(23)	(1)
Education, health and art	(24)	(4)	(24)	(4)	(17)	-
Private households	(48)	(52)	(48)	(52)	(54)	(58)
Other	(2)	-	(2)	-	(2)	-
Total	**(368)**	**(159)**	**(368)**	**(159)**	**(303)**	**(132)**

The following tables present sensitivity analyses taking into consideration only changes due to the different values of PDs according to the baseline, upside and downside FLI scenarios. Covid-19 SICR overlays are ignored. Sensitivities of these particular 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). The staging and ECL results if each baseline, upside or downside scenar-io were of 100% weight are shown in industry. The point in time PD effect as of 31 December 2019 is displayed as comparative information only.

28.4) Credit risk (continued)

The sensitivity analyses confirms that the FLI macro shift due to the Covid-19 induced macro situation is sig-nificantly higher in both expo-sure and ECL as of 31 December 2020 in comparison to 31 December 2019. Credit risk exposure in an amount of HRK 766 million is in stage 2 due to FLI shift as of 31 December 2020 compared to HRK 124 million as of 31 December 2019. This increase of stage 2 credit risk exposure led to an ECL increase of HRK 184 million (difference between HRK 259 million as of 31 December 2020 and HRK 75 million as of 31 December 2019). In addition, it can be concluded that current point in time PDs calculated based on latest observed default rates would lead to lower stage 2 credit risk exposures and related provisions than the upside FLI macro scenario.

Sensitivity analyses – Different probabilities of default (PD)

Impact of different scenarios on credit risk exposure

								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**
2020								
Erste&Steiermärkische Bank d.d.	766	(766)	231	(231)	120	(120)	(76)	76
2019								
Erste&Steiermärkische Bank d.d.	124	(124)	-	-	-	-	-	-

Impact of different scenarios on credit loss allowances

								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**
2020								
Erste&Steiermärkische Bank d.d.	132	127	(7)	48	(4)	27	2	(22)
2019								
Erste&Steiermärkische Bank d.d.	82	(7)	-	-	-	-	-	-

28.4) Credit risk (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
2020								
Agriculture and forestry	19	(19)	1	(1)	2	(2)	-	-
Mining	1	(1)	-	-	-	-	-	-
Manufacturing	139	(139)	94	(94)	36	(36)	(6)	6
Construction	96	(96)	16	(16)	15	(15)	(2)	2
Trade	67	(67)	3	(3)	-	-	(10)	10
Transport and communication	23	(23)	9	(9)	8	(8)	(2)	2
of which high risk	-	-	-	-	-	-	-	-
Hotels and restaurants	1	(1)	-	-	-	-	-	-
of which high risk	1	(1)	-	-	-	-	-	-
Financial and insurance services	-	-	-	-	-	-	-	-
Real estate and housing	1	(1)	-	-	-	-	(1)	1
Services	9	(9)	3	(3)	3	(3)	-	-
Public administration	308	(308)	-	-	-	-	-	-
Education, health and art	1	(1)	-	-	-	-	-	-
Households	99	(99)	105	(105)	56	(56)	(54)	54
Other	2	(2)	-	-	-	-	(1)	1
Total	**766**	**(766)**	**231**	**(231)**	**120**	**(120)**	**(76)**	**76**
2019								
Agriculture and forestry	(2)	2	-	-	-	-	-	-
Manufacturing	33	(33)	-	-	-	-	-	-
Energy and water supply	-	-	-	-	-	-	-	-
Construction	36	(36)	-	-	-	-	-	-
Trade	74	(74)	-	-	-	-	-	-
Transport and communication	(24)	24	-	-	-	-	-	-
Hotels and restaurants	(11)	11	-	-	-	-	-	-
Real estate and housing	5	(5)	-	-	-	-	-	-
Services	18	(18)	-	-	-	-	-	-
Education, health and art	1	(1)	-	-	-	-	-	-
Households	(8)	8	-	-	-	-	-	-
Other	2	(2)	-	-	-	-	-	-
Total	**124**	**(124)**	**-**	**-**	**-**	**-**	**-**	**-**

28.4) Credit risk (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
2020								
Agriculture and forestry	5	8	-	2	-	1	-	(1)
Manufacturing	15	24	(2)	12	(1)	5	-	(3)
of which high risk	-	1	-	-	-	-	-	-
Energy and water supply	13	-	-	-	-	-	-	-
Construction	9	6	(1)	1	(1)	1	-	-
Trade	11	13	-	3	-	2	1	(2)
of which high risk	-	3	-	1	-	-	-	-
Transport and communication	8	7	-	3	-	2	-	(1)
of which high risk	-	1	-	-	-	-	-	-
Hotels and restaurants	3	32	-	11	-	7	-	(7)
of which high risk	2	30	-	11	-	6	-	(6)
Financial and insurance services	11	-	-	-	-	-	-	-
Real estate and housing	5	2	-	-	-	-	-	-
Services	4	6	-	1	-	1	-	(1)
of which high risk	-	4	-	1	-	1	-	(1)
Public administration	17	2	-	-	-	-	-	-
Education, health and art	12	3	-	1	-	-	-	-
of which high risk	4	2	-	-	-	-	-	-
Households	17	23	(4)	14	(2)	8	1	(7)
Other	2	1	-	-	-	-	-	-
Total	**132**	**127**	**(7)**	**48**	**(4)**	**27**	**2**	**(22)**
2019								
Agriculture and forestry	2	-	-	-	-	-	-	-
Manufacturing	5	-	-	-	-	-	-	-
Energy and water supply	7	-	-	-	-	-	-	-
Construction	3	1	-	-	-	-	-	-
Trade	4	1	-	-	-	-	-	-
Transport and communication	39	(1)	-	-	-	-	-	-
Hotels and restaurants	4	(4)	-	-	-	-	-	-
Financial and insurance services	4	1	-	-	-	-	-	-
Real estate and housing	1	-	-	-	-	-	-	-
Services	1	1	-	-	-	-	-	-
Public administration	9	-	-	-	-	-	-	-
Education, health and art	8	-	-	-	-	-	-	-
Households	(6)	(6)	-	-	-	-	-	-
Other	1	-	-	-	-	-	-	-
Total	**82**	**(7)**	**-**	**-**	**-**	**-**	**-**	**-**

28.4) Credit risk (continued)

Composition of credit loss allowances

		GROUP
in HRK million	**2019**	**2020**
Credit loss allowances	(2,940)	(3,511)
Loss allowances for loan commitments and financial guarantees	(104)	(150)
Total	**(3,044)**	**(3,661)**

		BANK
in HRK million	**2019**	**2020**
Credit loss allowances	(2,537)	(2,994)
Loss allowances for loan commitments and financial guarantees	(80)	(131)
Total	**(2,617)**	**(3,125)**

In table above, credit loss allowances amount includes Cash balances at central banks.

Risk cost

From the beginning of the year risk cost (disclosed as 'Impairment result from financial instruments' in the Statement of comprehensive income) in amount of HRK -785 million was allocated on a Group level while allocation of HRK -627 million was recorded on a Bank level. Majority of allocated risk cost was connected to covid-19 crisis as overall situation resulted in additional provisioning of higher-risk clients and changes of macroeconomic assumptions. Those changes are especially visible on Hotels and restaurants industry as well as on Private households both on Bank and on Group level.

			GROUP
in HRK million	**On-balance**	**Off-balance**	**Total**
2020			
Agriculture, forestry	(16)	(7)	(23)
Mining	(2)	-	(2)
Manufacturing	(94)	(27)	(121)
Energy	(3)	(1)	(4)
Water supply	(1)	(4)	(5)
Construction	122	(12)	110
Trade	12	(9)	3
Transport	(29)	(5)	(34)
Hotels and restaurants	(221)	(11)	(232)
Communication	(3)	(1)	(4)
Financial and insurance services	(14)	-	(14)
Real estate	(25)	(5)	(30)
Professional activities	(8)	(12)	(20)
Administrative and support service activities	(11)	-	(11)
Public administration	(32)	(1)	(33)
Education	(1)	-	(1)
Health services	6	(6)	-
Art	(3)	(3)	(6)
Private households	(346)	(1)	(347)
Others	(10)	(1)	(11)
Total	**(679)**	**(106)**	**(785)**

28.4) Credit risk (continued)

in HRK million	On-balance	Off-balance	BANK Total
2020			
Agriculture, forestry	(20)	(7)	(27)
Mining	(2)	-	(2)
Manufacturing	(94)	(27)	(121)
Energy	(1)	(1)	(2)
Water supply	(2)	(4)	(6)
Construction	127	(12)	115
Trade	6	(10)	(4)
Transport	(21)	(4)	(25)
Hotels and restaurants	(181)	(10)	(191)
Communication	(4)	(1)	(5)
Financial and insurance services	(13)	-	(13)
Real estate	(25)	(5)	(30)
Professional activities	(8)	(11)	(19)
Administrative and support service activities	(5)	(1)	(6)
Public administration	(32)	(1)	(33)
Education	(1)	-	(1)
Health services	6	(6)	-
Art	(4)	(3)	(7)
Private households	(256)	(1)	(257)
Others	8	(1)	7
Total	**(522)**	**(105)**	**(627)**

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.

28.4) Credit risk (continued)

In the table below, comparison of forbearance and credit risk exposure and allowances is given for the Bank and the Group for 31 December 2020 and 31 December 2019.

Credit risk exposure, forbearance exposure and credit loss allowances

					GROUP
in HRK million	**Loans and receivables**	**Debt securities**	**Loan commitments**	**Other positions**	**Total**
2020					
Gross exposure	**60,829**	**13,411**	**7,519**	**4,245**	**86,004**
thereof gross forborne exposure	1,296	-	23	-	1,319
Performing exposure	57,007	13,405	7,460	4,138	82,010
thereof performing forborne exposure	450	-	21	-	471
Credit loss allowances for performing exposure	(893)	(73)	(73)	(35)	(1,074)
thereof credit loss allowances for performing forborne exposure	(27)	-	(4)	-	(31)
Non-performing exposure	3,822	6	59	107	3,994
thereof non-performing forborne exposure	846	-	2	-	848
Credit loss allowances for non-performing exposure	(2,540)	-	(19)	(23)	(2,582)
thereof credit loss allowances for non-performing forborne exposure	(496)	-	(1)	-	(497)

					GROUP
in HRK million	**Loans and receivables**	**Debt securities**	**Loan commitments**	**Other positions**	**Total**
2019					
Gross exposure	**56,545**	**12,012**	**6,645**	**3,922**	**79,124**
thereof gross forborne exposure	1,184	-	1	-	1,185
Performing exposure	52,906	12,012	6,599	3,880	75,397
thereof performing forborne exposure	315	-	-	-	315
Credit loss allowances for performing exposure	(541)	(36)	(52)	(29)	(658)
thereof credit loss allowances for performing forborne exposure	(20)	-	-	-	(20)
Non-performing exposure	3,639	-	46	42	3,727
thereof non-performing forborne exposure	869	-	1	-	870
Credit loss allowances for non-performing exposure	(2,361)	-	(10)	(13)	(2,384)
thereof credit loss allowances for non-performing forborne exposure	(498)	-	(1)	-	(499)

28.4) Credit risk (continued)

Credit risk exposure, forbearance exposure and credit loss allowances (continued)

					BANK
in HRK million	Loans and receivables	Debt securities	Loan commitments	Other positions	Total
2020					
Gross exposure	**52,659**	**12,566**	**4,872**	**3,499**	**73,596**
thereof gross forborne exposure	1,178	-	23	-	1,201
Performing exposure	49,378	12,560	4,837	3,395	70,170
thereof performing forborne exposure	395	-	21	-	416
Credit loss allowances for performing exposure	(727)	(69)	(62)	(34)	(892)
thereof credit loss allowances for performing forborne exposure	(24)	-	(4)	-	(28)
Non-performing exposure	3,281	6	35	104	3,426
thereof non-performing forborne exposure	783	-	2	-	785
Credit loss allowances for non-performing exposure	(2,194)	-	(14)	(21)	(2,229)
thereof credit loss allowances for non-performing forborne exposure	(469)	-	(1)	-	(470)

					BANK
in HRK million	Loans and receivables	Debt securities	Loan commitments	Other positions	Total
2019					
Gross exposure	**48,045**	**11,069**	**3,999**	**3,128**	**66,241**
thereof gross forborne exposure	1,063	-	1	-	1,064
Performing exposure	44,932	11,069	3,992	3,088	63,081
thereof performing forborne exposure	298	-	-	-	298
Credit loss allowances for performing exposure	(431)	(32)	(45)	(22)	(530)
thereof credit loss allowances for performing forborne exposure	(19)	-	-	-	(19)
Non-performing exposure	3,113	-	7	40	3,160
thereof non-performing forborne exposure	765	-	1	-	766
Credit loss allowances for non-performing exposure	(2,073)	-	(1)	(12)	(2,086)
thereof credit loss allowances for non-performing forborne exposure	(473)	-	(1)	-	(474)

Collateral

Recognition of collateral
The Collateral Management unit is a staff unit within the Risk Management Division. The Collateral Management Policy defines, among other things, 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 the 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 in accordance with the supervisory requirements. Whether a type of security or a specific collateral asset is accepted for credit risk mitigation is decided by Collateral management in cooperation with Credit Risk Management Division after determining if the applicable regulatory capital requirements are met.

Main types of collateral
The following types of collateral are the most frequently accepted and are currently held:

_ Real estate: This includes both private and commercial real estate
_ Financial collateral: This category primarily includes securities portfolios and cash deposits
_ Guarantees: Guarantees are provided mainly by governments, banks. All guarantors must have a minimum credit quality, in accordance with regulatory requirements.

28.4) Credit risk (continued)

Other types of collateral, such as real collateral in the form of movable property, on-balance sheet netting, investment funds, and life insurance policies are accepted less frequently.

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. Only independent appraisers not involved in the lending decision process are permitted to conduct real estate valuations, and the valuation methods to be applied are defined. For quality assurance purposes, the real estate valuations are validated on an ongoing basis.

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 – to reflect current recoveries. Financial collateral assets are recognised at market value.

The revaluation of collateral is done periodically and is automated as far as possible. The maximum periods for the revaluation of individual collateral assets are predefined and compliance is monitored by Collateral Management unit. Apart from periodic revaluations, collateral is assessed when information becomes available that indicates a decrease in the value of the collateral for exceptional reasons.

Collateral obtained in foreclosure proceedings is made available for sale in an orderly fashion. Generally, the Group does not occupy repossessed properties for its own business use. The main part of assets taken into its own books are construction lands and business objects as well as residential real estate.

28.4) Credit risk (continued)

The following tables compare the credit risk exposure broken down by business segment and collateral as at 31 December 2020 and 31 December 2019 respectively to the collateral received.

Credit risk exposure by business segment and collateral

						GROUP
in HRK million	Credit risk exposure	Collateral total	Guarantees	Real estate	Other	Credit risk exposure net of collateral
2020						
Retail	28,347	9,605	80	7,983	1,542	18,742
Small and Medium Enterprises	17,987	9,571	1,031	6,374	2,166	8,416
Local Large Corporates	5,449	3,189	1,553	874	762	2,260
Public sector	10,669	1,965	1,713	46	206	8,704
Group Large Corporates	2,372	411	52	269	90	1,961
Commercial Real Estate	2,729	1,609	4	1,520	85	1,120
Group Market Trading	347	166	-	-	166	181
Group Market Financial Institutions	699	37	-	9	28	662
Asset/Liability Management	17,181	499	-	-	499	16,682
Other	224	-	-	-	-	224
Total	**86,004**	**27,052**	**4,433**	**17,075**	**5,544**	**58,952**
2019						
Retail	27,414	8,847	61	7,231	1,555	18,567
Small and Medium Enterprises	18,326	9,220	952	6,151	2,117	9,106
Local Large Corporates	4,878	2,729	1,383	805	541	2,149
Public sector	8,873	1,808	1,551	29	228	7,065
Group Large Corporates	1,146	319	30	226	63	827
Commercial Real Estate	2,350	1,461	4	1,423	34	889
Group Market Trading	469	192	-	-	192	277
Group Market Financial Institutions	389	36	-	12	24	353
Asset/Liability Management	15,122	-	-	-	-	15,122
Other	157	-	-	-	-	157
Total	**79,124**	**24,612**	**3,981**	**15,877**	**4,754**	**54,512**

28.4) Credit risk (continued)

Credit risk exposure by business segment and collateral (continued)

						BANK
in HRK million	Credit risk exposure	Collateral total	Guarantees	Real estate	Other	Credit risk exposure net of collateral
2020						
Retail	21,056	7,792	80	7,177	535	13,264
Small and Medium Enterprises	14,566	7,746	981	5,628	1,137	6,820
Local Large Corporates	5,444	3,139	1,552	874	713	2,305
Public sector	10,122	1,792	1,635	46	111	8,330
Group Large Corporates	2,296	355	52	269	34	1,941
Commercial Real Estate	2,722	1,608	4	1,520	84	1,114
Group Market Trading	385	166	-	-	166	219
Group Market Financial Institutions	687	29	-	9	20	658
Asset/Liability Management	16,205	497	-	-	497	15,708
Other	113	-	-	-	-	113
Total	**73,596**	**23,124**	**4,304**	**15,523**	**3,297**	**50,472**
2019						
Retail	20,147	7,190	61	6,497	632	12,957
Small and Medium Enterprises	14,426	7,406	897	5,477	1,032	7,020
Local Large Corporates	4,781	2,672	1,383	805	484	2,109
Public sector	7,333	1,603	1,465	29	109	5,730
Group Large Corporates	930	267	30	226	11	663
Commercial Real Estate	2,334	1,460	4	1,423	33	874
Group Market Trading	562	192	-	-	192	370
Group Market Financial Institutions	375	26	-	12	14	349
Asset/Liability Management	15,207	-	-	-	-	15,207
Other	146	-	-	-	-	146
Total	**66,241**	**20,816**	**3,840**	**14,469**	**2,507**	**45,425**

28.4) Credit risk (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
2020									
Other demand deposits to credit institutions	381	-	-	-	-	381	24	357	-
Debt instruments held for trading	162	-	-	-	-	162	-	-	-
Non-trading debt instruments at FVPL	152	-	-	-	-	152	-	-	-
Debt instruments at FVOCI	10,896	-	-	-	-	10,896	10,896	-	-
Debt instruments at AC	59,313	23,571	4,196	16,192	3,183	35,742	54,107	1,699	3,507
Debt securities	2,363	-	-	-	-	2,363	2,363	-	-
Loans and advances to banks	4,051	637	-	-	637	3,414	4,051	-	-
Loans and advances to customers	52,899	22,934	4,196	16,192	2,546	29,965	47,693	1,699	3,507
Trade and other receivables	1,367	56	-	7	49	1,311	935	191	241
Finance lease receivables	2,512	2,104	-	-	2,104	408	1,687	751	74
Off balance-sheet exposures	11,221	1,321	237	876	208	9,900	10,913	143	165
Total	**86,004**	**27,052**	**4,433**	**17,075**	**5,544**	**58,952**	**78,562**	**3,141**	**3,987**

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
2019									
Other demand deposits to credit institutions	589	-	-	-	-	589	199	390	-
Debt instruments held for trading	225	-	-	-	-	225	-	-	-
Non-trading debt instruments at FVPL	183	-	-	-	-	183	-	-	-
Debt instruments at FVOCI	10,185	-	-	-	-	10,185	10,185	-	-
Debt instruments at AC	53,950	21,409	3,870	15,091	2,448	32,541	48,933	1,720	3,297
Debt securities	1,644	-	-	-	-	1,644	1,644	-	-
Loans and advances to banks	4,372	153	-	-	153	4,219	4,372	-	-
Loans and advances to customers	47,934	21,256	3,870	15,091	2,295	26,678	42,917	1,720	3,297
Trade and other receivables	1,760	9	-	7	2	1,751	1,228	237	295
Finance lease receivables	2,479	2,111	-	-	2,111	368	1,927	505	47
Off balance-sheet exposures	9,753	1,083	111	779	193	8,670	9,588	78	87
Total	**79,124**	**24,612**	**3,981**	**15,877**	**4,754**	**54,512**	**72,060**	**2,930**	**3,726**

28.4) Credit risk (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
2020									
Other demand deposits to credit institutions	89	-	-	-	-	89	8	81	-
Debt instruments held for trading	162	-	-	-	-	162	-	-	-
Non-trading debt instruments at FVPL	33	-	-	-	-	33	-	-	-
Debt instruments at FVOCI	10,352	-	-	-	-	10,352	10,352	-	-
Debt instruments at AC	54,156	21,874	4,071	14,745	3,058	32,282	49,731	1,237	3,188
Debt securities	2,181	-	-	-	-	2,181	2,181	-	-
Loans and advances to banks	3,978	637	-	-	637	3,341	3,978	-	-
Loans and advances to customers	47,997	21,237	4,071	14,745	2,421	26,760	43,572	1,237	3,188
Trade and other receivables	684	53	-	7	46	631	577	13	94
Off balance-sheet exposures	8,120	1,197	233	771	193	6,923	7,866	115	139
Total	**73,596**	**23,124**	**4,304**	**15,523**	**3,297**	**50,472**	**68,534**	**1,446**	**3,421**

									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
2019									
Other demand deposits to credit institutions	224	-	-	-	-	224	153	71	-
Debt instruments held for trading	226	-	-	-	-	226	-	-	-
Non-trading debt instruments at FVPL	15	-	-	-	-	15	-	-	-
Debt instruments at FVOCI	9,589	-	-	-	-	9,589	9,589	-	-
Debt instruments at AC	49,271	19,856	3,730	13,792	2,334	29,415	45,039	1,180	3,052
Debt securities	1,465	-	-	-	-	1,465	1,465	-	-
Loans and advances to banks	4,264	153	-	-	153	4,111	4,264	-	-
Loans and advances to customers	43,542	19,703	3,730	13,792	2,181	23,839	39,310	1,180	3,052
Trade and other receivables	239	7	-	7	-	232	172	7	60
Off balance-sheet exposures	6,677	953	110	670	173	5,724	6,563	67	47
Total	**66,241**	**20,816**	**3,840**	**14,469**	**2,507**	**45,425**	**61,516**	**1,325**	**3,159**

28.4) Credit risk (continued)

Gross loans to and receivables from customers

The following table shows gross loans to and receivables from customers divided by business segments and risk category as at 31 December 2020 and 31 December 2019 respectively.

Gross loans and advances to customers by business segment and risk category

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Total
2020					
Retail	17,514	4,754	675	2,037	24,980
Small and Medium Enterprises	11,063	1,157	111	1,169	13,500
Local Large Corporates	4,389	41	12	274	4,716
Public sector	9,201	224	5	-	9,430
Group Large Corporates	1,695	-	-	46	1,741
Commercial Real Estate	1,896	10	11	285	2,202
Group Market Trading	23	4	-	-	27
Group Market Financial Institutions	71	3	1	-	75
Asset/Liability Management	3	-	-	-	3
Other	10	22	-	10	42
Total	**45,865**	**6,215**	**815**	**3,821**	**56,716**

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Total
2019					
Retail	17,289	4,540	629	1,703	24,161
Small and Medium Enterprises	11,608	918	125	1,119	13,770
Local Large Corporates	3,900	150	49	384	4,483
Public sector	6,514	135	-	-	6,649
Group Large Corporates	811	-	-	116	927
Commercial Real Estate	1,578	29	39	297	1,943
Group Market Trading	6	38	-	-	44
Group Market Financial Institutions	20	16	-	-	36
Asset/Liability Management	1	-	-	-	1
Other	28	15	-	19	62
Total	**41,755**	**5,841**	**842**	**3,638**	**52,076**

28.4) Credit risk (continued)

Gross loans and advances to customers by business segment and risk category (continued)

					BANK
in HRK million	Low risk	Management attention	Substandard	Non-performing	Total
2020					
Retail	14,599	3,110	380	1,648	19,737
Small and Medium Enterprises	9,363	669	85	1,026	11,143
Local Large Corporates	4,321	41	11	274	4,647
Public sector	8,788	91	4	-	8,883
Group Large Corporates	1,621	-	-	44	1,665
Commercial Real Estate	1,894	10	11	279	2,194
Group Market Trading	61	4	-	-	65
Group Market Financial Institutions	64	-	-	-	64
Asset/Liability Management	187	-	-	-	187
Other	16	10	-	10	36
Total	**40,914**	**3,935**	**491**	**3,281**	**48,621**

					BANK
in HRK million	Low risk	Management attention	Substandard	Non-performing	Total
2019					
Retail	14,151	2,990	357	1,420	18,918
Small and Medium Enterprises	9,509	545	97	970	11,121
Local Large Corporates	3,771	132	40	380	4,323
Public sector	6,074	10	-	-	6,084
Group Large Corporates	694	-	-	40	734
Commercial Real Estate	1,576	29	39	282	1,926
Group Market Trading	98	38	-	-	136
Group Market Financial Institutions	12	12	-	-	24
Asset/Liability Management	370	-	-	-	370
Other	32	2	-	19	53
Total	**36,287**	**3,758**	**533**	**3,111**	**43,689**

28.4) Credit risk (continued)

The following table shows gross loans to and receivables from customers divided by business segments and IFRS 9 treatment as at 31 December 2020 and 31 December 2019 respectively.

Gross loans and advances to customers by business segment and IFRS 9 treatment

												GROUP
	Loans to customers					Loan loss allowances				Coverage ratio		
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	Stage 1	Stage 2	Stage 3	POCI	Stage 2	Stage 3	POCI
2020												
Retail	20,470	2,471	2,032	7	-	(133)	(176)	(1,367)	(1)	7.1%	67.3%	17.3%
Small and Medium Enterprises	8,653	3,656	1,096	95	-	(88)	(277)	(724)	(36)	7.6%	66.0%	37.8%
Local Large Corporates	3,413	1,018	266	19	-	(14)	(69)	(181)	(5)	6.8%	68.0%	26.3%
Public sector	9,245	185	-	-	-	(52)	(5)	-	-	2.9%	93.5%	-
Group Large Corporates	1,686	9	36	10	-	(9)	-	(12)	(2)	1.1%	32.3%	18.5%
Commercial Real Estate	1,500	417	252	33	-	(7)	(48)	(175)	(27)	11.6%	69.4%	83.2%
Group Market Trading	27	-	-	-	-	(1)	-	-	-	-	100.0%	-
Group Market Financial Institutions	74	1	-	-	-	(3)	-	-	-	2.2%	-	-
Asset/Liability Management	3	-	-	-	-	-	-	-	-	0.1%	-	-
Other	28	4	10	-	-	(2)	-	(9)	-	5.9%	93.6%	-
Total	**45,099**	**7,761**	**3,692**	**164**	**-**	**(309)**	**(575)**	**(2,468)**	**(71)**	**7.4%**	**66.8%**	**43.5%**

												GROUP
	Loans to customers					Loan loss allowances				Coverage ratio		
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	Stage 1	Stage 2	Stage 3	POCI	Stage 2	Stage 3	POCI
2019												
Retail	20,942	1,514	1,698	7	-	(105)	(87)	(1,094)	(1)	5.7%	64.4%	17.3%
Small and Medium Enterprises	11,864	757	1,071	78	-	(106)	(51)	(787)	(25)	6.7%	73.5%	32.6%
Local Large Corporates	3,930	168	305	80	-	(65)	(16)	(173)	(50)	9.3%	56.6%	63.3%
Public sector	6,595	54	-	-	-	(70)	(2)	-	-	4.1%	30.1%	-
Group Large Corporates	792	20	42	73	-	(3)	-	(8)	(2)	1.1%	20.1%	2.3%
Commercial Real Estate	1,540	106	259	38	-	(4)	(21)	(179)	(31)	20.9%	69.2%	77.8%
Group Market Trading	44	-	-	-	-	(2)	-	-	-	-	100.0%	-
Group Market Financial Institutions	35	1	-	-	-	(1)	-	-	-	3.4%	-	-
Asset/Liability Management	1	-	-	-	-	-	-	-	-	6.6%	-	-
Other	42	1	19	-	-	(1)	-	(13)	-	9.4%	64.8%	-
Total	**45,785**	**2,621**	**3,394**	**276**	**-**	**(357)**	**(177)**	**(2,254)**	**(109)**	**6.8%**	**66.4%**	**39.3%**

28.4) Credit risk (continued)

Gross loans and advances to customers by business segment and IFRS 9 treatment (continued)

												BANK
	Loans to customers					Loan loss allowances				Coverage ratio		
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	Stage 1	Stage 2	Stage 3	POCI	Stage 2	Stage 3	POCI
2020												
Retail	16,270	1,816	1,644	7	-	(72)	(133)	(1,112)	(1)	7.3%	67.5%	17.3%
Small and Medium Enterprises	7,180	2,915	953	95	-	(76)	(231)	(642)	(36)	7.9%	67.4%	37.8%
Local Large Corporates	3,349	1,013	266	19	-	(13)	(69)	(180)	(5)	6.8%	68.0%	26.3%
Public sector	8,716	167	-	-	-	(49)	(5)	-	-	2.8%	93.5%	-
Group Large Corporates	1,613	8	34	10	-	(9)	-	(11)	(2)	1.2%	31.5%	18.5%
Commercial Real Estate	1,498	417	246	33	-	(7)	(48)	(169)	(27)	11.6%	68.7%	83.2%
Group Market Trading	65	-	-	-	-	(1)	-	-	-	-	100.0%	-
Group Market Financial Institutions	64	-	-	-	-	(3)	-	-	-	5.1%	-	-
Asset/Liability Management	187	-	-	-	-	-	-	-	-	4.6%	-	-
Other	22	4	10	-	-	(1)	-	(9)	-	5.9%	93.6%	-
Total	**38,964**	**6,340**	**3,153**	**164**	**-**	**(231)**	**(486)**	**(2,123)**	**(71)**	**7.7%**	**67.3%**	**43.5%**

												BANK
	Loans to customers					Loan loss allowances				Coverage ratio		
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	Stage 1	Stage 2	Stage 3	POCI	Stage 2	Stage 3	POCI
2019												
Retail	16,510	986	1,415	7	-	(57)	(58)	(931)	(1)	5.9%	65.8%	17.3%
Small and Medium Enterprises	9,513	608	930	70	-	(87)	(44)	(682)	(25)	7.2%	73.4%	36.0%
Local Large Corporates	3,787	155	301	80	-	(64)	(15)	(172)	(50)	9.8%	57.1%	63.3%
Public sector	6,075	9	-	-	-	(65)	-	-	-	3.3%	30.1%	-
Group Large Corporates	675	19	31	9	-	(3)	-	(3)	(2)	1.1%	8.5%	17.1%
Commercial Real Estate	1,539	105	244	38	-	(4)	(22)	(167)	(31)	20.9%	68.4%	77.8%
Group Market Trading	136	-	-	-	-	(2)	-	-	-	-	100.0%	-
Group Market Financial Institutions	23	1	-	-	-	(1)	-	-	-	3.8%	-	-
Asset/Liability Management	370	-	-	-	-	(1)	-	-	-	6.2%	-	-
Other	35	1	17	-	-	(1)	-	(12)	-	9.9%	64.6%	-
Total	**38,663**	**1,884**	**2,938**	**204**	**-**	**(285)**	**(139)**	**(1,967)**	**(109)**	**7.4%**	**66.9%**	**52.9%**

28.4) Credit risk (continued)

In the following tables, the gross non-performing loans to and receivables from customers divided by reporting segment are contrasted with allowances for customer loans and the collateral for non-performing loans (NPL). The NPL ratio, the NPL coverage ratio, and the NPL total coverage ratio are also included. The NPL total coverage ratio specifies the coverage of non-performing loans by allowances as well as by collateral for non-performing loans.

Gross non-performing loans and advances to customers by business segment and coverage by loan loss allowances

										GROUP
	Non-performing		Gross customer loans		Loan loss allowances	Collateral for NPL	NPL ratio		NPL coverage (exc collateral)	Total NPL coverage ratio
in HRK million	Total	AC	Total	AC	AC	AC	Total	AC	AC	AC
2020										
Retail	2,037	2,037	24,980	24,980	(1,677)	535	8.2%	8.2%	82.6%	108.8%
Small and Medium Enterprises	1,169	1,169	13,500	13,500	(1,125)	691	8.7%	8.7%	96.2%	155.3%
Local Large Corporates	274	274	4,716	4,716	(269)	123	5.8%	5.8%	97.8%	142.7%
Public sector	-	-	9,430	9,430	(57)	-	-	-	-	-
Group Large Corporates	46	46	1,741	1,741	(23)	34	2.6%	2.6%	48.7%	123.1%
Commercial Real Estate	285	285	2,202	2,202	(257)	202	12.9%	12.9%	90.3%	161.2%
Group Market Trading	-	-	27	27	(1)	-	1.0%	1.0%	350.4%	350.4%
Group Market Financial Institutions	-	-	75	75	(3)	-	-	-	-	-
Asset/Liability Management	-	-	3	3	-	-	-	-	-	-
Other	10	10	42	42	(11)	-	24.2%	23.9%	116.5%	116.5%
Total	**3,821**	**3,821**	**56,716**	**56,716**	**(3,423)**	**1,585**	**6.7%**	**6.7%**	**89.7%**	**131.2%**

										GROUP
	Non-performing		Gross customer loans		Loan loss allowances	Collateral for NPL	NPL ratio		NPL coverage (exc collateral)	Total NPL coverage ratio
in HRK million	Total	AC	Total	AC	AC	AC	Total	AC	AC	AC
2019										
Retail	1,703	1,703	24,161	24,161	(1,287)	514	7.0%	7.0%	75.6%	105.8%
Small and Medium Enterprises	1,119	1,119	13,770	13,770	(969)	629	8.1%	8.1%	86.6%	142.7%
Local Large Corporates	384	384	4,483	4,483	(304)	127	8.6%	8.6%	78.9%	112.0%
Public sector	-	-	6,649	6,649	(72)	-	-	-	-	-
Group Large Corporates	116	116	927	927	(13)	34	12.5%	12.5%	11.6%	41.2%
Commercial Real Estate	297	297	1,943	1,943	(235)	204	15.3%	15.3%	79.5%	148.0%
Group Market Trading	-	-	44	44	(2)	-	0.6%	0.6%	-	-
Group Market Financial Institutions	-	-	36	36	(1)	-	-	-	-	-
Asset/Liability Management	-	-	1	1	-	-	-	-	-	-
Other	19	19	62	62	(14)	-	31.0%	31.0%	74.2%	74.2%
Total	**3,638**	**3,638**	**52,076**	**52,076**	**(2,897)**	**1,508**	**7.0%**	**7.0%**	**79.7%**	**121.1%**

28.4) Credit risk (continued)

Gross non-performing loans and advances to customers by business segment and coverage by loan loss allowances (continued)

										BANK
	Non-performing		Gross customer loans		Loan loss allowances	Collateral for NPL	NPL ratio		NPL coverage (exc collateral)	Total NPL coverage ratio
in HRK million	Total	AC	Total	AC	AC	AC	Total	AC	AC	AC
2020										
Retail	1,648	1,648	19,737	19,737	(1,318)	458	8.3%	8.3%	80.1%	107.9%
Small and Medium Enterprises	1,026	1,026	11,143	11,143	(985)	605	9.2%	9.2%	96.0%	155.0%
Local Large Corporates	274	274	4,647	4,647	(267)	123	5.9%	5.9%	97.8%	142.6%
Public sector	-	-	8,883	8,883	(54)	-	-	-	-	-
Group Large Corporates	44	44	1,665	1,665	(22)	33	2.7%	2.7%	48.4%	123.1%
Commercial Real Estate	279	279	2,194	2,194	(251)	202	12.7%	12.7%	90.0%	162.5%
Group Market Trading	-	-	65	65	(1)	-	0.4%	0.4%	367.2%	367.2%
Group Market Financial Institutions	-	-	64	64	(3)	-	-	-	-	-
Asset/Liability Management	-	-	187	187	-	-	-	-	-	-
Other	10	10	36	36	(10)	-	27.4%	27.4%	103.5%	103.5%
Total	**3,281**	**3,281**	**48,621**	**48,621**	**(2,911)**	**1,421**	**6.7%**	**6.7%**	**88.8%**	**132.1%**

										BANK
	Non-performing		Gross customer loans		Loan loss allowances	Collateral for NPL	NPL ratio		NPL coverage (exc collateral)	Total NPL coverage ratio
in HRK million	Total	AC	Total	AC	AC	AC	Total	AC	AC	AC
2019										
Retail	1,420	1,420	18,918	18,918	(1,047)	464	7.5%	7.5%	73.8%	106.5%
Small and Medium Enterprises	970	970	11,121	11,121	(838)	583	8.7%	8.7%	86.4%	146.4%
Local Large Corporates	380	380	4,323	4,323	(301)	124	8.8%	8.8%	79.3%	111.9%
Public sector	-	-	6,084	6,084	(65)	-	-	-	-	-
Group Large Corporates	40	40	734	734	(8)	33	5.5%	5.5%	17.5%	99.1%
Commercial Real Estate	282	282	1,926	1,926	(224)	204	14.6%	14.6%	79.3%	151.6%
Group Market Trading	-	-	136	136	(2)	-	0.2%	0.2%	-	-
Group Market Financial Institutions	-	-	24	24	(1)	-	-	-	-	-
Asset/Liability Management	-	-	370	370	(1)	-	-	-	-	-
Other	19	19	53	53	(13)	-	35.2%	35.2%	71.0%	71.0%
Total	**3,111**	**3,111**	**43,689**	**43,689**	**(2,500)**	**1,408**	**7.1%**	**7.1%**	**80.4%**	**125.6%**

28.5) 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.

28.5) 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. This can also be carried out by individual traders or chief traders on an ad hoc basis.
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 2020 and 31 December 2019 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 2020

in HRK thousand	Total	Interest	Currency	Shares	Commodity	Volatility
Position held in non-Trading Book	27,372	27,125	362	1	-	483
Fair Value Through Other Comprehensive Income	22,234	22,162	9	-	-	10
Amortised Cost	2,667	2,667	-	-	-	-
Held for Trading	51	43	25	-	-	-

Value at Risk of banking book and trading book 2019

in HRK thousand	Total	Interest	Currency	Shares	Commodity	Volatility
Position held in non-Trading book	14,636	14,492	60	0.8	-	467
Fair Value Through Other Comprehensive Income	12,891	12,887	26	-	-	17
Amortised Cost	3,611	3,609	8	-	-	-
Held for Trading	77	75	9	-	-	-

Interest rate risk of banking book

Interest rate risk is the risk of an adverse change in the fair 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 financial instruments, including transactions not recognized on the balance sheet, are grouped into maturity bands based on their remaining terms to maturity or terms to an interest rate adjustment. Positions without a fixed maturity (e.g. demand deposits) are included based on modelled deposit rates that are determined by means of statistical methods and the rules from the CNB, in line with the EBA's guidelines.

The following tables list the open fixed-income positions held by the Bank in currencies that carry an interest rate risk, i.e. for all significant currencies as of 31 December 2020 and 31 December 2019.

28.5) Market risk (continued)

Only the open fixed-income positions that are not allocated to the trading book are presented. Positive values indicate fixed-income risks on the asset side, i.e. a surplus of asset items, negative values represent a surplus on the liability side.

Open fixed-income positions not assigned to the trading book in 2020

in HRK million	1(3) years	3(5) years	5(7) years	7(10) years	Over 10 years
Fixed-interest gap in HRK positions	4,882	4,507	1,347	413	(164)
Fixed-interest gap in EUR positions	2,187	2,936	2,460	1,191	170

Open fixed-income positions not assigned to the trading book in 2019

in HRK million	1(3) years	3(5) years	5(7) years	7(10) years	Over 10 years
Fixed-interest gap in HRK positions	2,937	3,156	824	315	(88)
Fixed-interest gap in EUR positions	(62)	1,783	2,048	1,113	17

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.
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 2020 and the corresponding open positions of these currencies as of 31 December 2019.

Open exchange rate positions

in HRK thousand	2019	2020
Euro (EUR)	12,135	(172,784)
US dollar (USD)	(4,628)	4,791
Norwegian krone (NOK)	696	1,448
Australian dollar (AUD)	983	1,129
British Pound (GBP)	650	(682)
Hungarian Forint (HUF)	(1,034)	585
Swedish krona (SEK)	454	532
Canadian dollar (CAD)	625	498
Czech Koruna (CZK)	649	313

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.

28.6) 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 and the Capital Requirements Regulation (CRR), Delegated Regulation (EU) 2015/61 and 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. Besides the preparation for the new regulatory reporting requirements, current projects are aimed at continuously improving the internal stress testing methodology and the data quality used in the risk measurement.

Liquidity strategy

In 2020, customer deposits remained the primary source of funding for the Bank. The growth in loan volume was lower than inflows of customer deposits, the excess liquidity was mainly placed with the central bank.

In 2020, The Bank repaid EUR 89 million of long-term intra-group funding. The Bank did not issued bonds in 2020 nor in 2019.

Liquidity ratios

The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) have been implemented as ratios relevant for reporting purposes. 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%. The NSFR remains for the time being a reporting requirement only, but with introduction of binding minimum requirement in June 2021. The NSFR 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.

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). And from 1 January 2017, Liquidity Coverage Ratio (LCR) is monitored daily. At the end of 2020, 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.

28.6) Liquidity risk (continued)

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 Delegated regulation (EU) 2015/61 (LCR DA) for internal monitoring and steering of the liquidity position as well. In order 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 2020 and 31 December 2019:

		BANK
	2019	2020
Liquidity Coverage Ratio (LCR)	143%	149%

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 2020 and 31 December 2019 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
2020	> 1 year	> 2 years	> 3 years
Structural liquidity ratio	1.03	1.03	1.01

			BANK
2019	> 1 year	> 2 years	> 3 years
Structural liquidity ratio	1.08	1.04	1.10

28.6) 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 2020 year end and 2019 year end are shown in the tables below:

Term structure of counterbalancing capacity 2020

in HRK million	< 1 week	1 week(1) month	1(3) months	3(6) months	6(12) months
Cash, excess reserve	3,174	-	-	-	-
Liquid assets	10,029	(818)	(217)	-	(506)
Counterbalancing capacity	**13,203**	**(818)**	**(217)**	**-**	**(506)**

Term structure of counterbalancing capacity 2019

in HRK million	< 1 week	1 week(1) month	1(3) months	3(6) months	6(12) months
Cash, excess reserve	-	-	-	-	-
Liquid assets	9,425	(373)	(879)	(600)	(522)
Counterbalancing capacity	**9,425**	**(373)**	**(879)**	**(600)**	**(522)**

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.

28.6) Liquidity risk (continued)

Contractual Undiscounted Cash Flows from Financial liabilities

Maturities of contractual undiscounted cash flows from financial liabilities as at 31 December 2020 and 31 December 2019 respectively, were as follows:

Undiscounted financial liabilities

2020						GROUP
in HRK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**69,853**	**70,149**	**43,840**	**14,186**	**10,186**	**1,937**
Deposits by banks	7,763	7,860	1,030	1,665	4,315	850
Customer deposits	60,128	60,185	42,805	11,899	4,394	1,087
Debt securities in issue	677	717	1	-	716	-
Subordinated liabilities	1,285	1,387	4	622	761	-
Derivative liabilities	**106**	**108**	**54**	**17**	**6**	**31**
Contingent liabilities	**-**	**11,221**	**11,221**	**-**	**-**	**-**
Financial guarantees	-	3,702	3,702	-	-	-
Irrevocable commitments	-	7,519	7,519	-	-	-
Total	**69,959**	**81,478**	**55,115**	**14,203**	**10,192**	**1,968**

2019						GROUP
in HRK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**61,811**	**62,241**	**35,836**	**13,884**	**9,667**	**2,854**
Deposits by banks	8,545	8,662	2,933	2,725	1,423	1,581
Customer deposits	51,325	51,443	32,898	11,159	6,113	1,273
Debt securities in issue	672	712	1	-	711	-
Subordinated liabilities	1,269	1,424	4	-	1,420	-
Derivative liabilities	**36**	**60**	**5**	**15**	**6**	**34**
Contingent liabilities	**-**	**9,753**	**9,753**	**-**	**-**	**-**
Financial guarantees	-	3,107	3,107	-	-	-
Irrevocable commitments	-	6,646	6,646	-	-	-
Total	**61,847**	**72,054**	**45,594**	**13,899**	**9,673**	**2,888**

28.6) Liquidity risk (continued)

Undiscounted financial liabilities (continued)

2020						BANK
in HRK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**63,139**	**63,387**	**41,690**	**12,214**	**8,061**	**1,422**
Deposits by banks	3,924	3,978	642	308	2,559	469
Customer deposits	57,253	57,305	41,043	11,284	4,025	953
Debt securities in issue	677	717	1	-	716	-
Subordinated liabilities	1,285	1,387	4	622	761	-
Derivative liabilities	**106**	**108**	**54**	**17**	**6**	**31**
Contingent liabilities	**-**	**8,120**	**8,120**	**-**	**-**	**-**
Financial guarantees	-	3,248	3,248	-	-	-
Irrevocable commitments	-	4,872	4,872	-	-	-
Total	**63,245**	**71,615**	**49,864**	**12,231**	**8,067**	**1,453**

2019						BANK
in HRK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**54,402**	**54,791**	**32,550**	**11,137**	**8,383**	**2,721**
Deposits by banks	4,006	4,091	1,547	407	556	1,581
Customer deposits	48,455	48,564	30,998	10,730	5,696	1,140
Debt securities in issue	672	712	1	-	711	-
Subordinated liabilities	1,269	1,424	4	-	1,420	-
Derivative liabilities	**36**	**60**	**5**	**15**	**6**	**34**
Contingent liabilities	**-**	**6,677**	**6,677**	**-**	**-**	**-**
Financial guarantees	-	2,679	2,679	-	-	-
Irrevocable commitments	-	3,998	3,998	-	-	-
Total	**54,438**	**61,528**	**39,232**	**11,152**	**8,389**	**2,755**

28.7) 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 risks. Both quantitative and qualitative methods are used to identify operational risk. Consistent with sound practices, the responsibility for managing operational risk is within the line management.

Operational risk events are categorized within seven event types according to the Credit Institutions Act:
Internal theft and fraud, External theft and fraud, Employment practices and workplace safety, Clients, products and business practices, Damage to physical assets, Business disruption and (IT) 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.
In order to involve management of the Bank in the change management process it is ensured that there is an approval process that fully assesses operational risk for all new products, activities, processes and systems. This process has to also cover recent significant corporate events (such as mergers, acquisitions, disposals and restructuring) or new markets.

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) and the insurance is recognized as mitigation measure for capital requirements 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. Local Operational Conduct Committee is held at minimum on a quarterly basis.

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 under the line 'Depreciation and amortisation' and impairment under the line item 'Other operating result'.

The estimated economic useful lives are set out below:

	Useful life in years	
	2019	2020
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 under the line '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. Subsequent to initial recognition, investment property is measured at cost less accumulated amortisation and impairment.

Investment property is presented in the statement of financial position under the line 'Investment properties'.
Rental income is recognised and presented in the statement of profit or loss under the line 'Rental income from investment properties and other operating leases'. Depreciation is recognised and presented in the statement of profit or loss under 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 under the line '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 '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 under the line '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 under the line 'Rental income from investment properties and other operating leases'.

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. 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 under the line 'Depreciation and amortisation' and impairment under 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 'Other operating result'.

29. 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 2019	**885**	**336**	**362**	**595**	**2,178**	**65**
Additions (+)	40	32	53	95	220	-
Disposals (-)	(14)	(23)	(38)	(187)	(262)	(24)
Reclassification	(1)	2	(2)	-	(1)	1
Balance as at 31 December 2019	**910**	**347**	**375**	**503**	**2,135**	**42**
Additions (+)	34	26	44	67	171	1
Disposals (-)	(13)	(33)	(20)	(173)	(239)	(31)
Disposal of group	(3)	(2)	(2)	-	(7)	-
Reclassification	(7)	7	-	-	-	-
Currency translation	1	-	-	-	1	-
Balance as at 31 December 2020	**922**	**345**	**397**	**397**	**2,061**	**12**

Rights of use: 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 2019	**81**	**6**	**-**	**-**	**87**	**-**
Additions (+)	32	1	-	-	33	-
Disposals (-)	(3)	(4)	-	-	(7)	-
Balance as at 31 December 2019	**110**	**3**	**-**	**-**	**113**	**-**
Additions (+)	55	1	-	-	56	-
Disposals (-)	(33)	-	-	-	(33)	-
Disposal of group	(1)	-	-	-	(1)	-
Balance as at 31 December 2020	**131**	**4**	**-**	**-**	**135**	**-**

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 2019	**(273)**	**(238)**	**(189)**	**(233)**	**(933)**	**(16)**
Depreciation (-)	(19)	(27)	(52)	(78)	(176)	(1)
Disposals (+)	6	22	37	125	190	12
Impairment	-	-	(2)	-	(2)	(3)
Reclassification	1	-	-	-	1	(1)
Balance as at 31 December 2019	**(285)**	**(243)**	**(206)**	**(186)**	**(920)**	**(9)**
Depreciation (-)	(19)	(31)	(54)	(64)	(168)	(1)
Disposals (+)	3	32	19	105	159	3
Disposal of group	1	2	2	-	5	-
Impairment	-	(1)	-	-	(1)	-
Reclassification	1	(2)	1	-	-	-
Balance as at 31 December 2020	**(299)**	**(243)**	**(238)**	**(145)**	**(925)**	**(7)**

29. Property, equipment and Investment properties (continued)

Rights of use: 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 2019	**-**	**-**	**-**	**-**	**-**	**-**
Depreciation (-)	(16)	(1)	-	-	(17)	-
Disposals (+)	-	-	-	-	-	-
Balance as at 31 December 2019	**(16)**	**(1)**	**-**	**-**	**(17)**	**-**
Depreciation (-)	(23)	(1)	-	-	(24)	-
Disposals (+)	6	-	-	-	6	-
Balance as at 31 December 2020	**(33)**	**(2)**	**-**	**-**	**(35)**	**-**

Carrying amounts

Own property, equipment and investment properties

GROUP

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 2019	**625**	**104**	**169**	**317**	**1,215**	**33**
Balance as at 31 December 2020	**623**	**102**	**159**	**252**	**1,136**	**5**

Rights of use: property, equipment and investment properties

GROUP

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 2019	**94**	**2**	**-**	**-**	**96**	**-**
Balance as at 31 December 2020	**98**	**2**	**-**	**-**	**100**	**-**

29. Property, equipment and Investment properties (continued)

Acquisition costs

Own property, equipment and investment properties

BANK

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 2019	**717**	**283**	**182**	**-**	**1,182**	**30**
Additions (+)	32	30	47	-	109	-
Disposals (-)	(14)	(19)	(11)	-	(44)	(22)
Balance as at 31 December 2019	**735**	**294**	**218**	**-**	**1,247**	**8**
Additions (+)	34	24	32	-	90	-
Disposals (-)	(2)	(28)	(8)	-	(38)	(1)
Reclassification	(6)	6	-	-	-	-
Balance as at 31 December 2020	**761**	**296**	**242**	**-**	**1,299**	**7**

Rights of use: property, equipment and investment properties

BANK

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 2019	**76**	**12**	**-**	**-**	**88**	**-**
Additions (+)	31	7	-	-	38	-
Disposals (-)	(3)	(4)	-	-	(7)	-
Balance as at 31 December 2019	**104**	**15**	**-**	**-**	**119**	**-**
Additions (+)	42	4	-	-	46	-
Disposals (-)	(30)	(2)	-	-	(32)	-
Balance as at 31 December 2020	**116**	**17**	**-**	**-**	**133**	**-**

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 2019	**(248)**	**(203)**	**(62)**	**-**	**(513)**	**(13)**
Depreciation (-)	(15)	(23)	(32)	-	(70)	-
Disposals (+)	7	20	10	-	37	11
Impairment	-	-	-	-	-	(3)
Balance as at 31 December 2019	**(256)**	**(206)**	**(84)**	**-**	**(546)**	**(5)**
Depreciation (-)	(15)	(27)	(36)	-	(78)	-
Disposals (+)	1	30	6	-	37	-
Impairment	-	(1)	-	-	(1)	-
Reclassification	2	(2)	-	-	-	-
Balance as at 31 December 2020	**(268)**	**(206)**	**(114)**	**-**	**(588)**	**(5)**

29. Property, equipment and Investment properties (continued)

Rights of use: 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 2019	**-**	**-**	**-**	**-**	**-**	**-**
Depreciation (-)	(14)	(3)	-	-	(17)	-
Disposals (+)	-	-	-	-	-	-
Balance as at 31 December 2019	**(14)**	**(3)**	**-**	**-**	**(17)**	**-**
Depreciation (-)	(20)	(3)	-	-	(23)	-
Disposals (+)	5	1	-	-	6	-
Balance as at 31 December 2020	**(29)**	**(5)**	**-**	**-**	**(34)**	**-**

Carrying amounts

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 2019	**479**	**88**	**134**	**-**	**701**	**3**
Balance as at 31 December 2020	**493**	**90**	**128**	**-**	**711**	**2**

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 2019	**90**	**12**	**-**	**-**	**102**	**-**
Balance as at 31 December 2020	**87**	**12**	**-**	**-**	**99**	**-**

The carrying amount of expenditure recognised in the items fixed assets during their construction in 2020 is HRK 134 million for the Group and the Bank (2019: HRK 138 million for the Group and the Bank). The contractual commitments for purchase of fixed assets are HRK 18 million for the Group and the Bank as at 31 December 2020 (2019 HRK 5 million for the Group and the Bank).

At 31 December 2020 the Group's property and equipment amounted HRK 1,236 million (2019: HRK 1,311 million), HRK 241 million (2019: HRK 308 million) was leased under operating lease of which HRK 239 million (2019: HRK 305 million) of that amount relates to movable property, and reamining HRK 2 million (2019: HRK 3 million) relates to land and buildings.

At 31 December 2020 the Bank's property and equipment amounted HRK 810 million (2019: HRK 803 million), HRK 13 million (2019: HRK 16 million) relates to land and buildings leased under operating lease.

30. 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 39 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.

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. Intangible assets acquired separately are measured on initial recognition at cost. Following initial 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 'Depreciation and amortisation'.

The estimated useful lives are as follows:

	Useful life in years	
	2019	2020
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 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.

30. 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 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 'Other operating result'. The impairment loss is allocated first to writing down of CGU's goodwill. Any remaining impairment loss reduces the carrying amount of the CGU's other assets, 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 2019	**607**	**181**	**237**	**258**	**1,283**
Additions (+)	-	-	25	33	58
Disposals (-)	-	-	-	(2)	(2)
Balance as at 31 December 2019	**607**	**181**	**262**	**289**	**1,339**
Additions (+)	-	-	51	23	74
Disposals (-)	-	-	-	(10)	(10)
Disposal of group	-	-	-	(2)	(2)
Reclassification	-	-	1	(1)	-
Balance as at 31 December 2020	**607**	**181**	**314**	**299**	**1,401**

Accumulated depreciation

					GROUP
	Accumulated depreciation				
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2019	**(435)**	**(181)**	**(129)**	**(166)**	**(911)**
Amortisation (-)	-	-	(26)	(28)	(54)
Disposals (+)	-	-	-	2	2
Impairment (-)	-	-	-	-	-
Balance as at 31 December 2019	**(435)**	**(181)**	**(155)**	**(192)**	**(963)**
Amortisation (-)	-	-	(28)	(30)	(58)
Disposals (+)	-	-	-	9	9
Disposal of group	-	-	-	1	1
Reclassification	-	-	(1)	1	-
Balance as at 31 December 2020	**(435)**	**(181)**	**(184)**	**(211)**	**(1,011)**

30. Intangible assets (continued)

Carrying amounts

					GROUP
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 31 December 2019	172	-	107	97	376
Balance as at 31 December 2020	172	-	130	88	390

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 2019	-	-	186	109	295
Additions (+)	-	-	19	9	28
Disposals (-)	-	-	-	(1)	(1)
Balance as at 31 December 2019	-	-	205	117	322
Additions (+)	-	-	38	6	44
Disposals (-)	-	-	-	(8)	(8)
Reclassification	-	-	1	(1)	-
Balance as at 31 December 2020	-	-	244	114	358

Accumulated depreciation

					BANK
	Accumulated depreciation				
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2019	-	-	(99)	(76)	(175)
Amortisation (-)	-	-	(20)	(7)	(27)
Disposals (+)	-	-	-	1	1
Balance as at 31 December 2019	-	-	(119)	(82)	(201)
Amortisation (-)	-	-	(23)	(7)	(30)
Disposals (+)	-	-	-	8	8
Reclassification	-	-	(1)	1	-
Balance as at 31 December 2020	-	-	(143)	(80)	(223)

Carrying amounts

					BANK
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 31 December 2019	-	-	86	35	121
Balance as at 31 December 2020	-	-	101	34	135

Software acquired column relates to core banking system.

30. Intangible assets (continued)

Goodwill

The goodwill impairment assessment for the year 2020 and 2019 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 2020 till 2025. Discount rate applied to determine the value in use was 12.77% (2019: 12.24%)

Erste Card Club d.o.o. has recorded stable development of business in previous years which is interrupted with COVID crises in 2020 but is expected to recover in the planning cycle. In challenging environment, ECC is managing to increase number of clients through digital channels, and digital on-boarding of clients. Further increase of online sale and volume growth is expected in upcoming periods. Better customer experience is achieved with efficient and optimized processes which are improving internal flow of information and achieving overall business goals (i.e. ECC Mobile app, D Club rewards program, keeping high standards demanded by certificate of PCI Security Council, and many other goals). All mentioned information were taken into consideration in impairments tests which have shown that current investment in ECC is justified and no impairment is needed.
All mentioned information was taken into consideration in impairments tests which has shown that current investment in ECC is justified and no impairment is needed.

The following table shows the sensitivity analysis of the recoverable value dependent of investment in Erste Card Club d.o.o. for 2020 and 2019 on the main variables (terminal growth rate and terminal cost of equity):

2020	Risk free rate		
TV growth rate	12.27%	12.77%	13.27%
1.8%	1,660	1,633	1,609
2.3%	1,679	1,650	1,624
2.8%	1,700	1,668	1,640

2019	Risk free rate		
TV growth rate	11.74%	12.24%	12.74%
2.5%	1,723	1,689	1,659
3.0%	1,746	1,709	1,676
3.5%	1,773	1,732	1,696

Amount by which recoverable amount is higher than carrying amount in 2020 for Erste Card Club d.o.o. is HRK 304 million.

31. 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 will be re-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 ‘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	2019	2020	2019	2020
Prepayments and accrued income	18	34	5	14
Inventories	395	379	364	336
Value adjustments of inventories	(74)	(93)	(47)	(62)
Sundry assets	132	81	34	30
Other assets	**471**	**401**	**356**	**318**

In the line Inventories the Group holds collateral obtained in foreclosure procedures which the Group has the intention to sell in upcoming years.
In 2020 the Group recognised write down of inventories in amount of HRK 24 million (2019: HRK 15 million) and in the Bank write down of inventories amounted HRK 16 million (2019: HRK 8 million).

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.

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’.

32. 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	**2019**	**2020**
Outstanding lease payments	2,657	2,690
Non-guaranteed residual values	-	-
Gross investment	**2,657**	**2,690**
Unrealised financial income	(178)	(178)
Net investment	**2,479**	**2,512**
Present value of non-guaranteed residual values	-	-
Present value of outstanding lease payments	**2,479**	**2,512**

The maturity analysis of lease by residual maturities under IFRS 16:

				GROUP
		2019		2020
in HRK million	**Gross investment**	**Present value of outstanding lease payments**	**Gross investment**	**Present value of outstanding lease payments**
< 1 year	938	861	1,247	1,170
1 – 2 years	653	623	539	509
2 – 3 years	489	460	410	381
3 – 4 years	324	300	284	260
4 – 5 years	173	157	142	126
> 5 years	80	78	68	66
Total	**2,657**	**2,479**	**2,690**	**2,512**

During 2020, Group recognised interest income on lease receivables in the amount of HRK 102 million (2019: HRK 103 million).

Finance lease receivables

The analysis of the GCA and of related CLA of finance lease receivables per impairment buckets as of 31 December 2020 and 31 December 2019 is provided in the table below:

	GCA					CLA					GROUP
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2020											
Central banks	-	-	-	-	-	-	-	-	-	-	-
General governments	70	2	-	-	72	-	-	-	-	-	72
Credit institutions	1	-	-	-	1	-	-	-	-	-	1
Other financial corporations	11	1	-	-	12	-	-	-	-	-	12
Non-financial corporations	1,329	557	60	-	1,946	(4)	(15)	(26)	-	(45)	1,901
Households	399	68	14	-	481	(1)	(3)	(3)	-	(7)	474
Total	**1,810**	**628**	**74**	**-**	**2,512**	**(5)**	**(18)**	**(29)**	**-**	**(52)**	**2,460**

	GCA					CLA					GROUP
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2019											
Central banks	-	-	-	-	-	-	-	-	-	-	-
General governments	31	-	-	-	31	-	-	-	-	-	31
Credit institutions	2	-	-	-	2	-	-	-	-	-	2
Other financial corporations	13	-	-	-	13	-	-	-	-	-	13
Non-financial corporations	1,844	77	42	-	1,963	(5)	(1)	(17)	-	(23)	1,940
Households	428	37	5	-	470	-	(1)	(2)	-	(3)	467
Total	**2,318**	**114**	**47**	**-**	**2,479**	**(5)**	**(2)**	**(19)**	**-**	**(26)**	**2,453**

The movement in the credit loss allowances for finance lease receivables in the reporting period is provided in the table below:

									GROUP
in HRK million	As of	Additions	Charge-offs	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of
	Jan 2020								Dec 2020
Stage 1	(5)	(4)	1	1	2	-	-	-	(5)
Stage 2	(2)	-	-	(10)	(6)	-	-	-	(18)
Stage 3	(19)	-	1	(1)	(10)	-	-	-	(29)
POCI	-	-	-	-	-	-	-	-	-
Total	**(26)**	**(4)**	**2**	**(10)**	**(14)**	**-**	**-**	**-**	**(52)**

									GROUP
in HRK million	As of	Additions	Charge-offs	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of
	Jan 2019								Dec 2019
Stage 1	(4)	(5)	-	1	3	-	-	-	(5)
Stage 2	(3)	-	-	(1)	2	-	-	-	(2)
Stage 3	(19)	-	2	(1)	(1)	-	-	-	(19)
POCI	-	-	-	-	-	-	-	-	-
Total	**(26)**	**(5)**	**2**	**(1)**	**4**	**-**	**-**	**-**	**(26)**

Finance lease receivables (continued)

In the column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered reassignments of the related finance lease receivables from Stage 1 at 1 January 2020 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2020 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse (incremental year-on-year allocations) 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 (incremental year-on-year releases) and presented in the line 'Stage 1'. The profit and loss neutral effect from cross-stage transferring of the related CLA amounts recognized prior to stage re-assignments are presented above in the column 'Other changes in credit risk (net) 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 'Other changes in credit risk (net)'.

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 2020 to a different stage compared to 1 January 2020 (or to the initial recognition date, if originated during the year) are summarized below:

GCA transfers between impairment stages for finance lease receivables

	GROUP
in HRK million	**2020**
Transfers between Stage 1 and Stage 2	**625**
To Stage 2 from Stage 1	588
To Stage 1 from Stage 2	37
Transfers between Stage 2 and Stage 3	**15**
To Stage 3 from Stage 2	12
To Stage 2 from Stage 3	3
Transfers between Stage 1 and Stage 3	**32**
To Stage 3 from Stage 1	31
To Stage 1 from Stage 3	1

	GROUP
in HRK million	**2019**
Transfers between Stage 1 and Stage 2	**118**
To Stage 2 from Stage 1	82
To Stage 1 from Stage 2	36
Transfers between Stage 2 and Stage 3	**7**
To Stage 3 from Stage 2	7
To Stage 2 from Stage 3	-
Transfers between Stage 1 and Stage 3	**13**
To Stage 3 from Stage 1	12
To Stage 1 from Stage 3	1

The year-end total GCA of the finance lease receivables that were initially recognized during the year 2020 and not fully derecognized by 31 December 2020 amounts to HRK 741 million for the Group and nil for the Bank (2019: HRK 1,170 million for the Group and nil for the Bank).

The GCA of the finance lease receivables that were held at 1 January 2020 and fully derecognized (matured) during the year 2020 amounts to HRK 884 million for the Group and nil for the Bank (2019: HRK 277 million for the Group and nil for the Bank). The principal collateral of finance lease receivables is the leased asset whose legal owner during the leasing contract period is the Group. Pursuant to relevant risk management policies, satisfactory collaterals are obtained from clients.

33. 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

in HRK million	2019	GROUP 2020	2019	BANK 2020
< 1 year	92	77	5	2
1 – 2 years	53	42	4	2
2 – 3 years	37	28	4	2
3 – 4 years	22	15	4	1
4 – 5 years	10	5	3	1
> 5 years	2	1	-	-
Total	**216**	**168**	**20**	**8**

For information about rental income please refer to Note 7 Rental income from investment properties and other operating leases.

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. 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 is presented as part of ‘Property and equipment’ in the statement of financial position and depreciation cost as part of the line ‘Depreciation and amortisation’ in the statement of profit or loss. 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. 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 options. 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 headquarters, branches and parking lots. In addition, movables such as IT equipment are rented for business operations. For details related to right of use assets capitalized in the statement of financial position arising from leases where the Group is lessee, please see Note 29 Property, plant and equipment.

33. **Operating leases (continued)**

Maturity analysis of lease liabilities based on undiscounted cash flows

		GROUP		BANK
in HRK million	**2019**	**2020**	**2019**	**2020**
< 1 year	16	17	19	17
1 – 5 years	59	58	63	60
> 5 years	28	32	28	31
Total	**103**	**107**	**110**	**108**

During 2020, interest expenses on lease liabilities were recognised in the amount of HRK 2 million for the Group and the Bank (2019: HRK 7 million for the Group and the Bank)
In 2020, expenses in the amount of HRK 305 thousand for the Group and HRK 242 thousand for the Bank relating to short term leases, (2019: HRK 4 million for the Group and the Bank) for which the recognition exemption of IFSR 16 applies, were recognised. In addition, expenses amounting to HRK 14 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, arose. (2019: HRK 13 million for the Group and HRK 11 million for the Bank)

Total cash outflow for leases in 2020 were HRK 34 million for the Group and HRK 41 million for the Bank.(2019: HRK 40 million for the Group and HRK 37 million for the Bank)

Accruals, provisions, contingent liabilities and legal proceedings

34. Other liabilities

	GROUP		BANK	
in HRK million	2019	2020	2019	2020
Prepayments received from debtors	199	198	172	170
Salaries and bonuses payable	199	165	159	135
Deferred income and accrued fee expenses	96	101	5	7
Payables to State Agency for deposit	22	24	19	20
Sundry liabilities	125	161	72	92
Other liabilities	**641**	**649**	**427**	**424**

Deferred income outstanding at 31 December 2020 includes ‘contract liabilities’ in accordance with IFRS 15 in amount of HRK 55 million for the Group and HRK 2 million for the Bank (2019: HRK 80 million for the Group and nil for the Bank) Revenue recognised in the reporting year 2020 that was included in the contract liability balance at the beginning of the period amounts to HRK 37 million for the Group and HRK nil for the Bank. (2019: HRK 38 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.

35. 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 a reliable estimate can be made of the amount of the obligation.
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 contingent liabilities (particularly financial guarantees and loan commitments) 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 ‘Other operating result’.

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 ‘Personnel expenses’.

35. **Provisions (continued)**

Financial guarantees

In the ordinary course of business, the Group provides performance guaranties, financial 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.

The Group as a guarantor recognises financial guarantees as soon as it becomes a contracting party.
Financial guarantees fall under the scope of IFRS 9 impairment model and derecognition requirements.
Subsequent to initial recognition, provisions are recognised based on the expected credit loss impairment model and reported on the statement of financial position under the line ‘Provisions’.
The fee received is recognised in the statement of profit or loss under the line ‘Fee and commission income’ under ‘Net fee and commission income’ on a quarterly basis, over the life of the guarantee given.

If Group is a guarantee holder, the treatment depends on whether the financial guarantee is considered as integral to the contractual terms of financial assets whose risk is guaranteed. The 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.

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Group has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as an asset upon transfer of the loss compensation to the guarantee’s beneficiary. These fees are recognised within fee and commission income in profit or loss

Integral financial guarantees are included in the estimates of expected credit losses from the related financial assets. Premiums paid for integral financial guarantees and other credit enhancements are considered in the EIR of the related financial assets

	GROUP		BANK	
in HRK million	**2019**	**2020**	**2019**	**2020**
Long-term employee provisions	13	16	9	11
Pending legal issues	377	416	364	403
Provision for commitments and guarantees given	104	150	80	131
CLA for loan commitments and financial guarantees in Stage 1	67	69	54	60
CLA for loan commitments and financial guarantees in Stage 2	15	39	13	36
CLA for loan commitments and financial guarantees – Defaulted	22	42	13	35
Other provision	-	-	-	-
Provisions	**494**	**582**	**453**	**545**

a) Provision for commitments and guarantees given

							GROUP
in HRK million	**As of**	**Additions**	**Derecognitions**	**Transfers between stages**	**Other changes in credit risk (net)**	**Other**	**As of**
	Jan 2020						**Dec 2020**
Stage 1	67	63	(12)	(2)	(47)	-	69
Stage 2	15	-	(6)	16	14	-	39
Defaulted	22	-	(7)	2	25	-	42
Total	**104**	**63**	**(25)**	**16**	**(8)**	**-**	**150**

35. Provisions (continued)

a) Provision for commitments and guarantees given (continued)

GROUP

in HRK million	As of Jan 2019	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of Dec 2019
Stage 1	46	71	(12)	(1)	(37)	-	67
Stage 2	17	-	(8)	5	1	-	15
Defaulted	31	-	(8)	5	(6)	-	22
Total	**94**	**71**	**(28)**	**9**	**(42)**	**-**	**104**

BANK

in HRK million	As of Jan 2020	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of Dec 2020
Stage 1	54	60	(10)	-	(44)	-	60
Stage 2	13	-	(6)	14	15	-	36
Defaulted	13	-	(7)	1	28	-	35
Total	**80**	**60**	**(23)**	**15**	**(1)**	**-**	**131**

BANK

in HRK million	As of Jan 2019	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of Dec 2019
Stage 1	37	63	(10)	-	(36)	-	54
Stage 2	7	-	(8)	4	10	-	13
Defaulted	25	-	(8)	4	(8)	-	13
Total	**69**	**63**	**(26)**	**8**	**(34)**	**-**	**80**

b) Long-term employee provisions

GROUP

in HRK million	Pensions	Jubilee payments	Total
Present value of long-term employee benefit obligations, 31 December 2018	**4**	**8**	**12**
Service cost	-	1	1
Interest cost	-	-	-
Payments	-	(1)	(1)
Components recognised in other comprehensive income (Remeasurements)	1	-	1
Actuarial gains/(losses) arising from changes in financial assumptions	1	-	1
Present value of long-term employee benefit obligations, 31 December 2019	**5**	**8**	**13**
Service cost	1	1	2
Interest cost	-	-	-
Payments	-	(1)	(1)
Actuarial gains/losses recognised in income	-	2	2
Adjustments in financial assumptions	-	2	2
Present value of long-term employee benefit obligations, 31 December 2020	**6**	**10**	**16**

BANK

in HRK million	Pensions	Jubilee payments	Total
Present value of long-term employee benefit obligations, 31 December 2018	**3**	**5**	**8**
Service cost	-	1	1
Interest cost	-	-	-
Payments	-	-	-
Components recognised in other comprehensive income (remeasurements)	-	-	-
Actuarial gains/(losses) arising from changes from experience assumptions	-	-	-
Present value of long-term employee benefit obligations, 31 December 2019	**3**	**6**	**9**
Service cost	-	1	1
Interest cost	-	-	-
Payments	-	(1)	(1)
Actuarial gains/losses recognised in income	-	2	2
Adjustments in financial assumptions	-	2	2
Present value of long-term employee benefit obligations, 31 December 2020	**3**	**8**	**11**

35. Provisions (continued)

Actuarial assumptions

The actuarial calculation of pension obligations and jubilee provisions is based on the following assumptions:

in %	2019	2020
Interest rate	3.06	1.35
Expected increase in retirement benefits	7.10	6.85

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 2020.

in HRK million	Pensions	Jubilee payments	Total
Change in discount rate + 1.0%	3	7	10
Change in discount rate - 1.0%	3	8	11

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
2021	-	1	1
2022	-	1	1
2023	-	1	1
2024	-	1	1
2025	-	-	-
2026 - 2030	1	2	3

Duration

The following table presents the weighted average duration of the defined-benefit obligations as of year-end 2020:

in years	Pensions	Jubilee payments	Total
Duration	15.97	11.51	13.74

35. Provisions (continued)

c) Sundry provisions (other than long term employee provisions)

Sundry provisions 2020

						GROUP
in HRK million	**2019**	**Allocations**	**Use**	**Releases**	**Exchange rate**	**2020**
Pending legal issues	377	61	(4)	(20)	2	416
Other provision	-	-	-	-	-	-
Total	**377**	**61**	**(4)**	**(20)**	**2**	**416**

						BANK
in HRK million	**2019**	**Allocations**	**Use**	**Releases**	**Exchange rate**	**2020**
Pending legal issues	364	60	(4)	(19)	2	403
Other provision	-	-	-	-	-	-
Total	**364**	**60**	**(4)**	**(19)**	**2**	**403**

Sundry provisions 2019

						GROUP
in HRK million	**2018**	**Allocations**	**Use**	**Releases**	**Exchange rate**	**2019**
Pending legal issues	78	307	(1)	(8)	1	377
Other provision	21	-	-	(21)	-	-
Total	**99**	**307**	**(1)**	**(29)**	**1**	**377**

						BANK
in HRK million	**2018**	**Allocations**	**Use**	**Releases**	**Exchange rate**	**2019**
Pending legal issues	68	301	-	(6)	1	364
Other provision	21	-	-	(21)	-	-
Total	**89**	**301**	**-**	**(27)**	**1**	**364**

In 2015 the Supreme Court of the Republic of Croatia, in a proceeding initiated 2012 by a local consumer protection association against eight Croatian banks incl. Erste Bank (hereinafter: Collective case), upheld the second instance verdict by which FX clauses in loan agreements with consumers were confirmed as valid but contractual provisions permitting unilateral change of the variable interest rates in CHF denominated consumer loans, used by the majority of sued banks until 2008, are null and void. In late 2016 Constitutional Court of the Republic of Croatia rescinded the part of the Supreme Court's decision relating to the validity of FX clauses, while it upheld the verdict regarding the (in) validity of the interest rate clause. In late 2017 the Supreme Court rescinded the second instance decision and returned the case with respect to the FX clause for a retrial to the court of second instance. In June 2018 after a retrial before the court of second instance, a verdict is reached upon which first instance verdict is confirmed, namely, the court ruled that that collective interests of the consumers have been breached and the Swiss franc contractual clause in loan contracts concluded between 2004 and 2008 was ruled as null and void (formally final verdict). The Bank filed an extraordinary remedy (judicial review) against the second instance court decision from July 2018. On September 3rd 2019 Supreme Court of the Republic of Croatia reached a verdict by which the Supreme Court rejected judicial review of defendant banks. The Bank appealed to such decision by filing constitutional complaint on October 22nd 2019 to the Constitutional Court of the Republic of Croatia. Constitutional complaint was rejected by the Constitutional Court's decision dated February 3rd 2021. The Bank is considering of challenging the outcome of Collective case on a European level.

The Bank has followed the guidance of IAS 37: Provisions, Contingent Liabilities and Contingent Assets and recognized the provision for expected expense.

35. Provisions (continued)

c) Sundry provisions (other than long term employee provisions) (continued)

The Bank considers that, in relation to its financial position, possible material adverse effects of the verdicts reached in the Collective case had already been absorbed to the great extent within the framework of adjustment to the requirements as well as the conversion performed accordingly to the Consumer Credit Act (OG 75/09, 112/12, 143/13, 147/13, 09/15, 78/15, 102/15, 52/16) and the Credit Institutions Act (OG 159/2013, 19 / 2015, 102/2015). Namely, the Bank was under the Law obliged to offer the borrowers to convert their original CHF denominated loans into EUR loans, and after a borrower has accepted the offer and signed the conversion annex, the loan was retroactively converted into a EURO loan as if from the beginning the obligation of the loan was pegged to EURO, and accordingly all payments under a previous CHF loan were subsequently taken into account when the remaining amount of debt on the loan was being determined. The Bank is of an opinion that such standing of the Bank has been confirmed in the so-called Precedent proceeding conducted before the Supreme Court of the Republic of Croatia since December 2019, as the Court in March 2020 ruled that the conversion annexes are valid, despite the fact that the contractual provisions on the variable interest rate in the CHF denominated consumer loans and CHF FX clause were declared as null and void in the Collective case.

In April 2019 the Bank received a verdict of the court of second instance altering initial decision in a civil litigation brought against the Bank as a defendant, whereas under such altered decision the Bank has been ordered to pay the principal amount together with the statutory default interest from 2011 until the date of payment, along with litigation costs. As a result, in 2019 the Bank recognised additional provisions of HRK 187 million. In April 2019 the Bank filed extraordinary legal remedy (judicial review) to the Supreme Court of the Republic of Croatia.

Further information on disclosed disputes are not being provided following the rule IAS 37.92 IFRS, in order to protect the position of the Bank in pending court cases.”

36. 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 28.4 Credit risk).

Capital instruments, equity and reserves

37. Total equity

Share capital

As at 31 December 2020 and 2019 the share capital of the Bank comprises of 16,984,175 ordinary shares with a par value of HRK 100 each. 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 at 31 December 2020 and 2019 the legal reserves of the Bank disclose non-distributable reserves of HRK 85 million.
Share premium as at 31 December 2020 and 2019 amounted to HRK 1,801 million.

Dividends

The dividends for 2020 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 authorize 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

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 under common control of Erste Factoring d.o.o.

Based on the Merger Agreement, decisions by General Assemblies and the Commercial Court Decision, and the approval of the Croatian Financial Services Supervisory Agency and Croatian National Bank the company Erste Factoring d.o.o. has been merged with the Bank as of 19th June 2020.
The Bank 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 Bank 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 Erste factoring d.o.o. 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 the Bank; whereas assets, liabilities, income, expenses of acquiree (of Erste factoring d.o.o.) are incorporated only from the date of the merger which is 19th June 2020.

Effects of merger recognized at the merger date:

in HRK million	19 June 2020
Cash and cash balances	222
Non-trading financial assets at fair value through profit or loss	30
Equity instruments	6
Debt securities	24
Property and equipment	1
Current tax assets	3
Deferred tax assets	33
Trade and other receivables	443
Financial liabilities measured at amortised cost	(697)
Lease liabilities	(1)
Other liabilities	(14)
Elimination of carrying amount of the investments in subsidiary	(98)
Difference recognised in Equity, incl.:	
· **Retained earnings**	**(78)**

Disposal of Diners Club International Mak d.o.o.e.l.

On December 7, 2020 the Erste Card Club¸d.o.o. sold its whole investment 100% in Diners Club International Mak d.o.o.e.l.

Until the date of disposal Diners Club International Mak d.o.o.e.l. had contributed HRK 1 million of loss for the year to the Group. These figures are consolidated within Group Income statement.

in HRK million	30 November 2020
Carrying amounts of net assets over which control was lost	
Total assets	46
Total liabilities	(32)
Net assets derecognised	**14**
Consideration received	**5**
Loss on disposal	
Consideration received	5
Net assets derecognised	(14)
Loss on disposal	**(9)**
Cash inflow on disposal of the subsidiary	
Cash and cash equivalents disposed of	(4)
Cash consideration received	5
Net cash inflow arising on disposal	**1**

38. 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 2020, and for the year then ended.

Subsidiaries are consolidated from the date on which control commences until the date when control ceases. 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.

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, unrealised gains and losses are eliminated on consolidation.

Non-controlling interest represents 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 on 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 as 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."

38. Subsidiaries (continued)

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.
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).

38. Subsidiaries (continued)

Investment in subsidiaries

Subsidiaries	Main business activity	Ownership % held		Group's share of net assets		Investment at cost less impairment	
in HRK million		2019	2020	2019	2020	2019	2020
Erste Nekretnine d.o.o.	Real estate business	100%	100%	7	9	1	1
Erste Factoring d.o.o.	Accounts receivables repurchase	100%	0%	13	0	98	0
Erste Card Club d.o.o.	Financial intermediation and services	100%	100%	1,157	1,168	659	659
Izbor Nekretnina d.o.o.	Real estate management and lease	100%	100%	41	44	40	40
Erste Bank AD, Podgorica	Credit institution	100%	100%	676	713	100	100
Erste&Steiermarkische S-leasing d.o.o.	Leasing company	50%	50%	373	392	89	89
Erste Group IT HR d.o.o.	IT engineering	80%	80%	9	10	2	2
Direct control				2,276	2,336	989	891
Erste Card d.o.o. Slovenia	Financial intermediation and services	100%	100%	27	30	24	24
Diners Club International Mak d.o.o.e.l.	Financial intermediation and services	100%	0%	14	0	7	0
Indirect control				41	30	31	24
Total subsidiaries:				**2,317**	**2,366**	**1,020**	**915**

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 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.

39. 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 and joint ventures recorded by applying the equity method (measured as investor's share of profit or loss in the associates and joint ventures).
However, impairment losses, reversal of impairment losses and realised gains and losses on investments in associates or joint ventures accounted for using the equity method are reported under the line 'Other operating result'.

39. Investments in associates (continued)

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	2019	2020
Ownership % held	45.86%	45.86%
IFRS Classification	Associate	Associate
Reporting currency	HRK	HRK
Dividend income received	10	7
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	105	121
Other assets	15	17
Financial liabilities	-	0
Other liabilities	(13)	(29)
Revenue	67	66
Expense	(42)	(43)
Investment at cost	38	38
Reconciliation of investee's net assets against equity investment's carrying amount	20	21
Net assets attributable to the Group	58	59

Other disclosure matters

40. Related-party transactions

In 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 other executive management while other includes close family members of key management personnel.

As at 31 December 2020 and 31 December 2019, balances outstanding with related parties comprised:

ASSET						GROUP
in HRK million	Loans and receivables	Derivatives 2019	Other	Loans and receivables	Derivatives 2020	Other
Entity with significant influence on the Group	-	-	2	-	-	3
Key management personnel	13	-	-	19	-	-
Parent company	374	6	217	28	67	172
Other EGB companies	4	-	31	3	-	4
Other	1	-	-	2	-	-
Associates	-	-	-	-	-	7
Total assets	**392**	**6**	**250**	**52**	**67**	**186**

LIABILITIES						GROUP
in HRK million	Deposits	Derivatives 2019	Other	Deposits	Derivatives 2020	Other
Entity with significant influence on the Group	3,344	-	-	3,037	-	-
Key management personnel	34	-	-	48	-	-
Parent company	4,496	31	2	3,188	42	4
Other EGB companies	79	-	1	246	-	-
Other	6	-	-	19	-	-
Associates	20	-	-	34	-	-
Total liabilities	**7,979**	**31**	**3**	**6,572**	**42**	**4**

ASSET						BANK
in HRK million	Loans and receivables	Derivatives 2019	Other	Loans and receivables	Derivatives 2020	Other
Entity with significant influence on the Group	-	-	1	-	-	-
Key management personnel	12	-	-	17	-	-
Parent company	374	6	64	28	67	65
Other EGB companies	3	-	3	3	-	3
Other	1	-	-	2	-	-
Subsidiaries	497	1	-	231	-	1
Associates	-	-	-	-	-	7
Total assets	**887**	**7**	**68**	**281**	**67**	**76**

Significant related party transactions are related to financial services and IT activities.

40. Related-party transactions (continued)

LIABILITIES						BANK
in HRK million	Deposits	Derivatives 2019	Other	Deposits	Derivatives 2020	Other
Entity with significant influence on the Group	962	-	-	711	-	-
Key management personnel	36	-	-	46	-	-
Parent company	2,611	31	2	1,920	42	3
Other EGB companies	77	-	1	170	-	-
Other	6	-	-	19	-	-
Subsidiaries	307	-	-	370	-	-
Associates	20	-	-	34	-	-
Total liabilities	**4,019**	**31**	**3**	**3,270**	**42**	**3**

STATEMENT OF PROFIT OR LOSS	GROUP		BANK	
in HRK million	2019	2020	2019	2020
Interest income	**24**	**22**	**29**	**23**
Entity with significant influence on the Group	-	-	-	-
Key management personnel	-	-	-	-
Parent company	24	22	22	21
Other EGB companies	-	-	-	-
Subsidiaries	-	-	7	2
Associates	-	-	-	-
Fee income	**35**	**23**	**106**	**78**
Parent company	8	4	7	3
Other EGB companies	25	17	24	16
Subsidiaries	-	-	73	57
Associates	2	2	2	2
Other operating income	**82**	**43**	**70**	**30**
Parent company	60	22	57	19
Subsidiaries	-	-	13	10
Other EGB companies	22	21	-	1
Associates	-	-	-	-
Total income	**141**	**88**	**205**	**131**

STATEMENT OF PROFIT OR LOSS	GROUP		BANK	
in HRK million	2019	2020	2019	2020
Interest expense	**181**	**149**	**130**	**107**
Entity with significant influence on the Group	46	38	16	11
Key management personnel	-	-	-	-
Other EGB companies	-	1	-	-
Parent company	135	109	114	95
Subsidiaries	-	-	-	-
Associates	-	1	-	1
Fee expense	**34**	**38**	**40**	**38**
Parent company	4	6	4	6
Other EGB companies	30	29	23	22
Other	-	3	-	3
Subsidiaries	-	-	13	7
Other administrative expenses	**77**	**90**	**125**	**131**
Parent company	18	13	18	13
Other EGB companies	58	77	43	63
Key management personnel	1	-	1	-
Subsidiaries	-	-	63	55
Associates	-	-	-	-
Gains and losses from net trading result	**35**	**(74)**	**35**	**(71)**
Parent company	35	(74)	35	(74)
Subsidiaries	-	-	-	3
Other operating expenses	**-**	**-**	**-**	**-**
Parent company	-	-	-	-
Total expenses	**327**	**203**	**330**	**205**

40. Related-party transactions (continued)

OFF BALANCE ITEMS in HRK million	GROUP 2019	GROUP 2020	BANK 2019	BANK 2020
Guarantees issued	**26**	**25**	**26**	**25**
Parent company	25	24	25	24
Other EGB companies	1	1	-	-
Other	-	-	-	-
Subsidiaries	-	-	1	1
Undrawn credit and loan commitments	**1**	**4**	**131**	**102**
Key management personnel	-	3	1	1
Other EGB companies	1	1	-	-
Subsidiaries	-	-	130	101
Associates	-	-	-	-
Total commitments and contingent liabilities	**27**	**29**	**157**	**127**

Borrowings from parent company at 31 December 2020 were HRK 2,553 million for the Group (2019: HRK 3,563 million) and HRK 1,285 million for the Bank (2019: HRK 1,678 million).

As at 31 December 2020, the Group has had cash deposit as collateral within Amounts due to banks from the parent company in the amount of HRK 809 million (2019: HRK 893 million).

The remuneration of key management personnel were as follows:

in HRK million	GROUP 2019	GROUP 2020	BANK 2019	BANK 2020
Management Board				
Wages and salaries	28	30	10	11
of which contributions to pension fund	2	3	-	1
Bonuses	12	11	5	6
Other key management personnel				
Wages and salaries	26	25	26	25
of which contributions to pension fund	3	4	3	4
Bonuses	7	2	7	2
Total remuneration	**73**	**68**	**48**	**44**

41. Audit fees and tax consultancy fees

The following table contains fundamental audit fees by the auditors in the financial years 2020 and 2019:

in HRK million	GROUP 2019	GROUP 2020	BANK 2019	BANK 2020
Audit fees	4	6	2	3
Total	**4**	**6**	**2**	**3**

In the period from 1 January 2020 to 31 December 2020 the auditors provided two permissible non-audit services to the Bank and the Group.
They are consultat services for Assets Quality Review to the Erste Bank AD Podgorica, and Multi Issuer Program to the Bank. Total fee for provided non-audit services is not material.

42. 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 at 31 December 2020 and 31 December 2019.

				GROUP
in HRK million	2019		2020	
	< 1 year	> 1 year	< 1 year	> 1 year
Cash and cash balances	5,105	-	8,673	-
Financial assets HfT	203	22	119	43
Derivatives	17	22	75	43
Other financial assets held for trading	186	-	44	-
Non-trading financial assets at FVPL	160	39	126	62
Equity instruments	-	16	-	36
Debt securities	160	23	126	26
Financial assets at FVOCI	2,327	8,277	1,456	9,822
Equity instruments	-	162	-	130
Debt securities	2,327	8,115	1,456	9,692
Financial assets at AC	16,679	34,616	16,891	39,263
Debt securities	291	1,351	180	2,181
Loans and advances to banks	4,367	-	4,041	-
Loans and advances to customers	12,021	33,265	12,670	37,082
Finance lease receivables	841	1,612	815	1,645
Trade and other receivables	1,528	9	1,117	26
Property, plant and equipment	-	1,311	-	1,236
Investment properties	-	33	-	5
Intangible assets	-	376	-	390
Investments in associates	-	58	-	59
Current tax assets	12	-	123	-
Deferred tax assets	-	187	-	197
Other assets	118	353	89	312
TOTAL ASSETS	**26,973**	**46,893**	**29,409**	**53,060**
Financial liabilities HfT	18	18	76	30
Derivatives	18	18	76	30
Financial liabilities measured at amortised cost	49,647	13,043	58,755	11,881
Deposits from banks	4,762	5,052	3,295	5,753
Deposits from customers	44,027	7,298	54,682	5,446
Debt securities issued	-	672	-	677
Other financial liabilities	858	21	778	5
Finance lease liabilities	15	83	23	79
Provisions	443	51	510	72
Tax liabilities	24	5	6	4
Other liabilities	620	21	627	22
TOTAL LIABILITIES	**50,767**	**13,221**	**59,997**	**12,088**

42. Analysis of remaining maturities (continued)

				BANK
in HRK million	2019		2020	
	< 1 year	> 1 year	< 1 year	> 1 year
Cash and cash balances	4,339	-	7,947	-
Financial assets HfT	204	22	119	43
Derivatives	18	22	75	43
Other financial assets held for trading	186	-	44	-
Non-trading financial assets at FVPL	15	10	8	61
Equity instruments	-	10	-	36
Debt securities	15	-	8	25
Financial assets at FVOCI	2,148	7,813	1,409	9,295
Equity instruments	-	147	-	114
Debt securities	2,148	7,666	1,409	9,181
Financial assets at AC	14,798	32,019	14,548	36,774
Debt securities	291	1,173	-	2,180
Loans and advances to banks	4,260	-	3,968	-
Loans and advances to customers	10,247	30,846	10,580	34,594
Trade and other receivables	188	-	596	-
Property, plant and equipment	-	803	-	810
Investment properties	-	3	-	2
Intangible assets	-	121	-	135
Investments in subsidiaries	-	989	-	891
Investments in associates	-	38	-	38
Current tax assets	-	-	112	-
Deferred tax assets	-	75	-	110
Other assets	24	332	26	292
TOTAL ASSETS	**21,716**	**42,225**	**24,765**	**48,451**
Financial liabilities HfT	18	18	76	30
Derivatives	18	18	76	30
Financial liabilities measured at amortised cost	43,777	10,752	54,025	9,277
Deposits from banks	1,955	3,320	1,555	3,654
Deposits from customers	41,695	6,760	52,307	4,946
Debt securities issued	-	672	-	677
Other financial liabilities	127	-	163	-
Finance lease liabilities	18	87	17	85
Provisions	420	33	490	55
Tax liabilities	8	-	-	-
Other liabilities	406	21	403	21
TOTAL LIABILITIES	**44,647**	**10,911**	**55,011**	**9,468**

43. Events after balance sheet date

At the beginning of February, the Bank had successfully issued the so-called *senior preferred* bonds , which is the first issue of such kind on the domestic Capital market within the so-called MREL requirements.
Bonds were issued with a fixed interest rate of 0.75%, with a semi-annual interest payment, yield to maturity of 0.85% and with the maturity date 5 February 2026. The value of the issued bonds amounts to EUR 45 million.
The issue was intended for all investors, but ultimately the most represented were institutional investors. The bonds are listed on the Zagreb Stock Exchange, and additionally it is relevant to mention that the bonds are part of the List of Eligible Collateral for CNB Credit Operations and Repo Transactions as well, thanks to the Bank's high credit rating.

On 22 January 2021, Erste Leasing d.o.o. (the Company) received the Conclusion of the Croatian Financial Services Supervisory Agency (hereinafter HANFA) with the attached Report on the performed supervision dated 21 January 2021. The subject of HANFA's indirect supervision was the calculation of interest rates under leasing contracts in period from the beginning of 2008 to the end of 2011 and supervision over the transparency of the current provisions of financial and operating lease agreements concluded with recipients who do not have the status of consumers.
On 29 January 2021, the Company filed its Objection to the Minutes, rebutting them in their entirety.
Until the publication of the audited financial statements, the Company has not received a Decision or any other HANFA document on its Complaint and is therefore unable to assess the impact of a possible HANFA Decision on the Company's operations and financial position, if any.

44. Country-by-country reporting

Country 2020	Operating income	Pre-tax result from continuing operations	Income tax	Employees GROUP
Croatia	2,724	428	(6)	2,896
Montenegro	216	47	(3)	297
North Macedonia	14	-	-	-
Slovenia	57	7	(1)	59
Total	**3,011**	**482**	**(10)**	**3,252**

Country 2019	Operating income	Pre-tax result from continuing operations	Income tax	Employees GROUP
Croatia	2,895	1,093	(219)	2,969
Montenegro	217	103	(9)	270
North Macedonia	17	3	-	43
Slovenia	63	12	(1)	59
Total	**3,192**	**1,211**	**(229)**	**3,341**

Own funds and capital requirements

45. Own funds and capital requirements

In the following pages the Group fulfils the disclosure requirements according to Capital Requirements Regulation (CRR), in detail Articles 436 (b) – (e) CRR and Articles 437 (1) (a), (d) and (e) CRR.

Regulatory Requirements

Since 1 January 2014, the Group has been calculating the regulatory capital and the regulatory capital requirements according to Basel III. The requirements were implemented within the EU by the CRR and the Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 (CRD IV) that 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.

The CRD V was enacted in national law on 16 December 2020 accompnied by this the combined buffer calculation has changed, as well as some capital buffers were updated in the capital buffers regulation. The Group applies these new regulations from the date of its coming into force.

Accounting Principles

The financial and regulatory figures published by the Group are based on IFRS. Eligible capital components derive 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 (for details see the following chapter Comparison of consolidation for accounting purposes and regulatory purposes) 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.

Comparison of consolidation for accounting purposes and regulatory purposes

Disclosure requirements covered: Art. 436 (b) CRR

Scope of Consolidation

Details regarding the accounting scope of consolidation are disclosed in chapter Scope of consolidation of Annual report.
The regulatory scope of consolidation is used as a synonym for the scope of consolidation that follows the regulatory requirements for consolidation as defined by the CRR and Croatian Credit Institutions Act (ZOKI) which introduces the requirements of the CRD IV into national law.

Regulatory scope of consolidation

The regulatory scope of consolidation is defined in Part One, Title II and Chapter 2 Section 3 of the CRR.
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.
In addition, the following update according to Art 18 (7) applies: Where an institution has a subsidiary which is an undertaking other than an institution, a financial institution or an ancillary services 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.

45. Own funds and capital requirements (continued)

Regulatory scope of consolidation (continued)

Main differences between the accounting scope and the regulatory scope based on the different requirements as defined within IFRS and CRR:

- Based on the CRR, mainly credit institutions pursuant to Article 4 (1) (1) CRR, investment firms pursuant to Article 4 (1) (2) CRR, ancillary services undertakings pursuant to Article 4 (1) (18) CRR and financial institutions pursuant to Article 4 (1) (26) CRR have to be considered within the regulatory scope of consolidation. Under IFRS all other entities not required to be consolidated under CRR, such as insurance undertakings, must be included in the accounting scope of consolidation.
- Exclusion of entities from the regulatory scope of consolidation can be applied based on Article 19 CRR. According to Article 19 (1) CRR, entities can be excluded from the regulatory scope if their total assets and off balance sheet items are less than the lower amount of either EUR 10 million or 1% of total assets and off balance sheet items of the parent company. The Group makes use of Article 19 (1) CRR.
- According to Article 19 (2) CRR, entities can also be excluded if the limits defined in Article 19 (1) CRR are exceeded, but are not relevant for regulatory purposes. Exclusion of entities based on Article 19 (2) CRR needs prior approval of the competent authorities. For entities that exceed the limits as defined in Article 19 (1) CRR by insignificant amounts, the Group apply Article 19 (2) CRR and follows the requirements for the approval process as defined within this article. The Group does not apply Article 19 (2) CRR for credit institutions and investment firms.

Consolidation methods

For the calculation of consolidated own funds, the Group generally applies the same consolidation methods as used for accounting purposes.

Consideration of consolidation methods for the calculation of consolidated own funds pursuant to the CRR

The amounts used for the calculation of the own funds derive from the Statement of financial position according to IFRS. The amounts that are used as the basis for calculation of own funds are recalculated based on the definition of the regulatory scope of consolidation pursuant to the CRR. The difference between the IFRS Statement of financial position and the regulatory Statement of financial position is the difference in the scope of consolidation as shown under title Statement of financial position reconciliation.

Consideration of non-consolidated financial sector entities and deferred tax assets that rely on future profitability arising from temporary differences within the calculation of consolidated Common Equity Tier 1 of the Group

Carrying amounts representing the investments in financial sector entities as defined in article 4 (27) CRR that are not fully consolidated or considered by using the at equity consolidation method for regulatory purposes have to be deducted from the own funds based on the requirements as defined in articles 36 (1) (h), 45 and 46 CRR for non-significant investments and articles 36 (1) (i), 43, 45, 47 and 48 CRR for significant investments.
For these purposes, non-significant investments are defined as investments in financial sector entities in which the participation is equal to or less than 10% of Common Equity Tier 1 (CET1) of the relevant financial sector entities, while significant investments are defined as investments that are above 10% of the CET1 of the relevant financial sector entities. To determine the participation in the relevant financial sector entities, these participations are calculated based on the direct, indirect and synthetic holdings in the relevant entities. According to article 46 (1) (a) CRR, holdings in non-significant investments have to be deducted only if the total amount for such investments, including Additional Tier 1 (AT1) items according to article 56 (c) and 59 CRR and Tier 2 items according to article 66 (c) and 70 CRR, exceeds a defined threshold of 10% in relation to CET1 of the reporting institution.

45. Own funds and capital requirements (continued)

Deduction shall be applied to the amount that exceeds the 10% of threshold. Amounts that are equal to or less than 10% of the CET1 of the reporting institution are applied with the appropriate risk weights according Part 3, Title II, Chapter 2 respectively Chapter 3 and if necessary according to the requirements of Part 3, Title IV within the risk weighted assets based on the requirements according to article 46 (4) CRR.

For the deduction of significant investments in the CET1 of financial sector entities, a threshold is defined in article 48 (2) CRR. According to article 48 (2) CRR, significant investments in the CET1 of financial sector entities have only to be deducted if they exceed 10% of the CET1 of the reporting institution. If 10% threshold is exceeded, the deduction is limited to the amount by which the defined threshold is exceeded. The remaining amount has to be considered within the calculation of the risk weighted assets (RWA). The risk weight (RW) is defined at 250% according to article 48 (4) CRR.
In addition to the aforementioned threshold, a combined threshold for the deduction of significant investments according to article 36 (1) (i) CRR and for deferred tax assets that rely on future profitability and arise from temporary differences according to article 36 (1) (c) CRR as well as according to article 38 CRR is defined in article 48 (2) CRR. The combined threshold according to article 48 (2) CRR is defined at 17.65% of the CET1 of the reporting institution. If the threshold is exceeded, the exceeding amount has to be deducted from the CET1 of the reporting institution. The remaining amount has to be considered within the RWAs according to article 48 (3) CRR. A 250% RW shall be applied for the amount not exceeding the 17.65% threshold according to article 48 (4) CRR.

Beside the 17.65% combined threshold, a 10% threshold related to the CET1 capital of the reporting institution is applied for deferred tax assets that rely on future profitability and arising from temporary differences according to article 48 (3) CRR. In case the amount of deferred tax assets that rely on future profitability and which arise from temporary differences exceeds the threshold of 10% of CET1 of the reporting institution the exceeding amount has to be deducted from the CET1 of the reporting institution. The amount that is equal to or less than the threshold as defined in article 48 (3) CRR has to be considered within the calculation of RWAs with a 250% RW according to article 48 (4) CRR.

At the reporting date, the Group did not exceed any of the aforementioned thresholds.

Threshold calculations according to articles 46 and 48 CRR

in HRK million	2019	2020
Non-significant investments in financial sector entities		
Threshold (10% of CET1)	896	953
Holdings in CET1	(10)	(8)
Distance to threshold	**886**	**945**
Significant investments in financial sector entities		
Threshold (10% of CET1)	896	953
Holdings in CET1	(43)	(42)
Distance to threshold	**853**	**911**
Deferred tax assets		
Threshold (10% of CET1)	896	953
Deferred tax assets dependent on future profitability and arises from temporary differences	(172)	(171)
Distance to threshold	**724**	**782**
Combined threshold for deferred tax assets and significant investments		
Threshold (17.65% of CET1)	1,581	1,682
Deferred tax assets dependent on future profitability and arises from temporary differences and CET1 instruments of financial sector entities where the institution has a significant investment	(215)	(213)
Distance to threshold	**1,366**	**1,469**

45. Own funds and capital requirements (continued)

Presentation of the scope of consolidation

Entities within the different scopes of consolidation

	IFRS Full	IFRS Equity	CRR Full	CRR Proportional	CRR De Minimis	2020 CRR Equity
Credit institutions:						
Erste bank AD Podgorica, Montenegro	x	-	x	-	-	-
Financial institutions, financial holding companies and mixed financial holding companies:						
Erste & Steiermärkische S-Leasing d.o.o.	x	-	x	-	-	-
Erste Card d.o.o., Slovenia	x	-	x	-	-	-
ERSTE CARD CLUB d.o.o. za financijsko posredovanje i usluge	x	-	x	-	-	-
Ancillary service undertakings, investment firms and asset management companies:						
Erste Nekretnine d.o.o.	x	-	-	-	x	-
Erste Group IT HR d.o.o.	x	-	-	-	x	-
Izbor nekretnina d.o.o.	x	-	-	-	x	-
Other companies						
Erste d.o.o. društvo za upravljanje obveznim mirovinskim fondom	-	x	-	-	-	x

	IFRS Full	IFRS Equity	CRR Full	CRR Proportional	CRR De Minimis	2019 CRR Equity
Credit institutions:						
Erste bank AD Podgorica, Montenegro	x	-	x	-	-	-
Financial institutions, financial holding companies and mixed financial holding companies:						
Erste & Steiermärkische S-Leasing d.o.o.	x	-	x	-	-	-
Erste Card d.o.o., Slovenia	x	-	x	-	-	-
Erste Factoring d.o.o. za factoring	x	-	x	-	-	-
ERSTE CARD CLUB d.o.o. za financijsko posredovanje i usluge	x	-	x	-	-	-
Diners Club International Mak d.o.o.e.l., Skopje	x	-	x	-	-	-
Ancillary service undertakings, investment firms and asset management companies:						
Erste Nekretnine d.o.o.	x	-	-	-	x	-
Erste Group IT HR d.o.o.	x	-	-	-	x	-
Izbor nekretnina d.o.o.	x	-	-	-	x	-
Other companies						
Erste d.o.o. društvo za upravljanje obveznim mirovinskim fondom	-	x	-	-	-	-

45. Own funds and capital requirements (continued)

Changes within the fully consolidated entities within the regulatory scope of consolidation

During 2020 there were changes in scope of consolidation. In December, Diners Club International Mak d.o.o.e.l., Skopje was sold and in June 2020 Erste Factoring d.o.o. za factoring, was merged into the Bank. In 2019 there was no changes in regulatory scope of consolidation.
In accordance with Art. 18 (7) CRR, the equity method is to be applied starting with 28 December 2020, due to changes in CRR. The Group applies new para 18 (7) and due to change, Erste d.o.o. društvo za upravljanje obveznim mirovinskim fondom was classified according to equity method in 2020.

Impediments to the transfer of own funds

Disclosure requirements covered: art. 436 (c) CRR

Currently there are no restrictions or significant impediments to the transfer of financial funds or regulatory capital within the group of credit institutions. Further details can be found in chapter Significant accounting policies within Annual report.

Total capital shortfall of all subsidiaries not included in the consolidation

Disclosure requirements covered: art. 436 (d) (e) CRR

There was no capital shortfall at any of the companies of the Group not included in consolidation.

Own funds

Own funds according to Basel III 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. 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.

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.

Capital buffer requirments in 2019 includes conservation buffer in amount of 2.5% and Other Systemic Important Institution (O-SII) buffer in the amount of 3%.

The combined buffer requirement is the sum of the capital conservation buffer, the countercyclical capital buffer, sum of the O-SII capital buffer and the systemic risk buffer in 2020, while in 2019 buffer for O-SII and other systemic risk buffer was the maximum of this two buffers plus other mentioned buffers.

All group entities that were required to meet the minimum capital requirements has satisifed it in 2019 and 2020.

45. Own funds and capital requirements (continued)

Capital structure according to the EU directive 575/2013 (CRR)

in HRK million	Article pursuant to CRR	GROUP 2019	GROUP 2020	BANK 2019	BANK 2020
Common equity tier 1 capital (CET1)					
Capital instruments eligible as CET1 capital	26 (1) (a) (b), 27 to 30, 23 (1) (f), 42	3,499	3,499	3,499	3,499
Own CET1 instruments	36 (1) (f), 42	3,499	3,499	3,499	3,499
Retained earnings	26 (1) (c), 26 (2)	5,433	6,051	4,258	4,650
Accumulated other comprehensive income	4 (100), 26 (1) (d)	350	371	314	341
Other reserves		85	85	85	85
Prudential filter: fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	33 (1) (b)	(1)	(2)	(1)	(2)
Value adjustments due to the requirements for prudent valuation	34, 105	(30)	(12)	(26)	(11)
Regulatory adjustments relating to unrealised gains and losses	467, 468	-	-	-	-
Goodwill	4 (113), 36 (1) (b), 37	(172)	(172)	-	-
Other intangible assets	4 (115), 36 (1) (b), 37 (a)	(180)	(197)	(121)	(135)
Deferred tax assets dependent upon future profitability and not temporary differences net of associated tax liabilities	36 (1) (c), 38	(15)	(26)	-	(26)
IRB shortfall of credit risk adjustments to expected losses	36(1)(d), 40, 158, 159	(10)	-	(10)	-
CET1 capital elements or deductions - other		-	(70)	-	(60)
Common equity tier 1 capital (CET1)	**50**	**8,959**	**9,527**	**7,998**	**8,341**
Tier 2 capital (T2)					
Capital instruments and subordinated loans eligible as T2 capital	62 (a), 63 to 65, 66 (a), 67	635	386	635	386
Own T2 instruments	63 (b) (i), 66 (a), 67	635	386	635	386
IRB excess of provisions over expected losses eligible	62 (d)	196	228	208	239
Tier 2 capital (T2)	**71**	**831**	**614**	**843**	**625**
Total own funds – final		**9,790**	**10,141**	**8,841**	**8,966**
Capital requirement – final	92 (3), 95, 96, 98	3,996	4,349	3,298	3,723
CET1 capital ratio – final	92 (2) (a)	17.93	17.53	19.40	17.93
Tier 1 capital ratio – final	92 (2) (b)	17.93	17.53	19.40	17.93
Total capital ratio – final	92 (2) (c)	19.60	18.66	21.45	19.27

In accordance with Art. 26 (2) CRR the item retained earnings includes the eligible profits of HRK 293,4 million (the Bank HRK 228,6 million) approved by the CNB by decision of 11 February 2021.

The capital structure table above is based on the Commission Implementing Regulation (EU) No 1423/2013 laying down implementing technical standards with regard to disclosure of own funds requirements, enlarged by the EBA GL 2014/14. Positions, which are not relevant for the Group are not disclosed.

45. Own funds and capital requirements (continued)

Risk structure according to EU directive 575/2013 (CRR)

in HRK million	GROUP Article pursuant to CRR	2019 Calculation base/total risk (final)	2019 Capital requirement (final)	2020 Calculation base/total risk (final)	2020 Capital requirement (final)
Total risk exposure amount	92 (3), 95, 96, 98	49,955	3,996	54,361	4,349
Risk-weighted assets (credit risk)	92 (3) (a) (f)	44,183	3,534	48,684	3,895
Standardised approach		11,553	924	10,728	858
IRB approach		32,630	2,610	37,956	3,036
Trading book, foreign FX risk and commodity risk	92 (3) (b) (i) and (iii), 92 (4) (b)	199	16	256	20
Operational risk	92 (3) (e) 92 (4) (b)	5,548	444	5,408	433
Exposure for CVA	92 (3) (d)	25	2	13	1

in HRK million	BANK Article pursuant to CRR	2019 Calculation base/total risk (phased-in)	2019 Capital requirement (phased-in)	2020 Calculation base/total risk (phased-in)	2020 Capital requirement (phased-in)
Total risk exposure amount	92 (3), 95, 96, 98	41,219	3,298	46,533	3,723
Risk-weighted assets (credit risk)	92 (3) (a) (f)	37,058	2,965	42,347	3,388
Standardised approach		2,448	196	2,626	210
IRB approach		34,610	2,769	39,721	3,178
Trading book, foreign FX risk and commodity risk	92 (3) (b) (i) and (iii), 92 (4) (b)	54	4	144	12
Operational risk	92 (3) (e) 92 (4) (b)	4,085	327	4,030	322
Exposure for CVA	92 (3) (d)	22	2	12	1

45. Own funds and capital requirements (continued)

Statement of financial position reconciliation

Disclosure requirements covered: Art. 437 (1) (a) CRR

The table below represents the difference between the accounting scope of consolidation and the regulatory scope of consolidation

			2020
in HRK million	IFRS	Effects – scope of consolidation	CRR
Assets			
Cash and cash balances	8,673	-	8,673
Financial assets – held for trading	162	-	162
Derivatives	118	-	118
Other trading assets	44	-	44
Non-trading financial assets at fair value through profit or loss	188	(4)	184
Financial assets at fair value through other comprehensive income	11,278	-	11,278
Financial assets at amortised cost	56,154	20	56,174
Loans to and receivables from credit institutions	4,041	-	4,041
Loans to and receivables from customers	49,752	20	49,772
Debt securities	2,361	-	2,361
Finance lease receivables	2,460	-	2,460
Property and equipment	1,236	(6)	1,230
Investment properties	5	-	5
Intangible assets	390	(21)	369
Investments in associates	59	49	108
Current tax assets	123	-	123
Deferred tax assets	197	-	197
Trade and other receivables	1,143	2	1,145
Other assets	401	(19)	382
Total assets	**82,469**	**21**	**82,490**
Liabilities and equity			
Financial liabilities – held for trading	106	-	106
Derivatives	106	-	106
Financial liabilities measured at amortised costs	70,636	47	70,683
Deposits from banks	9,048	-	9,048
Deposits from customers	60,128	51	60,179
Debt securities issued	677	-	677
Other financial liabilities	783	(4)	779
Finance lease liabilities	102	-	102
Provisions	582	(1)	581
Current tax liabilities	6	-	6
Deferred tax liabilities	4	-	4
Other liabilities	649	(4)	645
Total liabilities	**72,085**	**42**	**72,127**
Total equity	**10,384**	**(21)**	**10,363**
Equity attributable to non-controlling interests	198	(2)	196
Equity attributable to owners of the parent	10,186	(19)	10,167
Total liabilities and equity	**82,469**	**21**	**82,490**

45. Own funds and capital requirements (continued)

Statement of financial position reconciliation (continued)

Disclosure requirements covered: Art. 437 (1) (a) CRR

The table below represents the difference between the accounting scope of consolidation and the regulatory scope of consolidation

			2019
in HRK million	IFRS	Effects – scope of consolidation	CRR
Assets			
Cash and cash balances	5,105	-	5,105
Financial assets – held for trading	225	-	225
Derivatives	39	-	39
Other trading assets	186	-	186
Non-trading financial assets at fair value through profit or loss	199	(4)	195
Financial assets at fair value through other comprehensive income	10,604	-	10,604
Financial assets at amortised cost	51,295	29	51,324
Loans to and receivables from credit institutions	4,367	-	4,367
Loans to and receivables from customers	45,286	29	45,315
Debt securities	1,642	-	1,642
Finance lease receivables	2,453	-	2,453
Property and equipment	1,311	(22)	1,289
Investment properties	33	(27)	6
Intangible assets	376	(24)	352
Investments in associates	58	23	81
Current tax assets	12	-	12
Deferred tax assets	187	-	187
Trade and other receivables	1,537	(2)	1,535
Other assets	471	(6)	465
Total assets	**73,866**	**(33)**	**73,833**
Liabilities and equity			
Financial liabilities – held for trading	36	-	36
Derivatives	36	-	36
Financial liabilities measured at amortised costs	62,690	6	62,696
Deposits from banks	9,814	(1)	9,813
Deposits from customers	51,325	8	51,333
Debt securities issued	672	-	672
Other financial liabilities	879	(1)	878
Finance lease liabilities	98	-	98
Provisions	494	-	494
Current tax liabilities	24	-	24
Deferred tax liabilities	5	-	5
Other liabilities	641	(5)	636
Total liabilities	**63,988**	**1**	**63,989**
Total equity	9,878	(34)	9,844
Equity attributable to non-controlling interests	188	(2)	186
Equity attributable to owners of the parent	**9,690**	**(32)**	**9,658**
Total liabilities and equity	**73,866**	**(33)**	**73,833**

45. Own funds and capital requirements (continued)

The differences between IFRS financial statements and financial statements in accordance with CRR scope of consolidation refers to the scope of companies included in mentioned balances. As of 31 December 2020, difference on position Investments in associates in amount of HRK 49 million (2019: HRK 23 million) refers to investment in associates together with investment in companies listed in table Entities within the different scopes of consolidation that are out of the CRR scope of consolidation. The same amount effects total equity through position Retained earnings and Gain for the year. Details are shown in table Total equity.

Differences on other positions in the Statement of financial position refer to the effects of the companies not included in CRR scope while included in the IFRS scope.

Further details regarding the number of entities within the different scopes of consolidation are disclosed in table Presentation of the scope of consolidation.

Total equity

in HRK million	IFRS	effects – scope of consolidation	CRR	Regulatory adjustments	Own funds	2020 Own funds disclosure table – reference
Subscribed capital	1,698	-	1,698	-	1,698	a
Capital reserves	1,886	(85)	1,801	-	1,801	b
Capital instruments and the related share premium accounts	-	85	85	-	85	c
Retained earnings	5,771	(13)	5,758	-	5,758	d
Gain for the year	460	(6)	454	(161)	293	e
Other comprehensive income (OCI)	371	-	371	-	371	f
Fair value reserve	452	-	452	-	452	
Currency translation	1	-	1	-	1	
Deferred tax	(82)	-	(82)	-	(82)	
Other	-	-	-	-	-	
Equity attributable to owners of the parent	10,186	(19)	10,167	(161)	10,006	
Equity attributable to non-controlling interests	198	(2)	196	(196)	-	
Total equity	**10,384**	**(21)**	**10,363**	**(357)**	**10,006**	

45. Own funds and capital requirements (continued)

Regulatory adjustments in amount of HRK 161 million refer to foreseeable dividend that is deducted from the profit for the year 2020 (2019: HRK 291 million).
Further details regarding the development of IFRS equity are disclosed within Part III Statement of Changes in Equity.

in HRK million	IFRS	effects – scope of consolidation	CRR	Regulatory adjustments	Own funds	2019 Own funds disclosure table – reference
Subscribed capital	1,698	-	1,698	-	1,698	a
Capital reserves	1,886	(85)	1,801	-	1,801	b
Capital instruments and the related share premium accounts	-	85	85	-	85	c
Retained earnings	4,794	(34)	4,760	-	4,760	d
Gain for the year	962	2	964	(291)	673	e
Other comprehensive income (OCI)	350	-	350	-	350	f
Fair value reserve	432	-	432	-	432	
Currency translation	(7)	-	(7)	-	(7)	
Deferred tax	(75)	-	(75)	-	(75)	
Other	-	-	-	-	-	
Equity attributable to owners of the parent	9,690	(32)	9,658	(291)	9,367	
Equity attributable to non-controlling interests	188	(2)	186	(186)	-	
Total equity	**9,878**	**(34)**	**9,844**	**(477)**	**9,367**	

Intangible assets

in HRK million	IFRS	effects – scope of consolidation	CRR	Regulatory adjustments	Own funds	2020 Own funds disclosure table – reference
Intangible assets	**390**	**(21)**	**369**	**-**	**369**	
deductible from CET 1	390	(21)	369	-	369	g

in HRK million	IFRS	effects – scope of consolidation	CRR	Regulatory adjustments	Own funds	2019 Own funds disclosure table – reference
Intangible assets	**376**	**(24)**	**352**	**-**	**352**	
deductible from CET 1	376	(24)	352	-	352	g

Details regarding the development of intangible assets are disclosed under Note 24 Intangible assets.

45. Own funds and capital requirements (continued)

Deferred Taxes

in HRK million	IFRS	effects – scope of consolidation	Own Funds	2020 Own funds disclosure table – reference
Deferred tax assets	**197**	**-**	**197**	
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	26	-	26	h
Deferred tax assets that rely on future profitability and arise from temporary differences	171	-	171	

in HRK million	IFRS	effects – scope of consolidation	Own Funds	2019 Own funds disclosure table – reference
Deferred tax assets	**187**	**-**	**187**	
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	15	-	15	h
Deferred tax assets that rely on future profitability and arise from temporary differences	172	-	172	

Based on the threshold definition according to article 48 CRR deferred tax assets that rely on future profitability and arise from temporary differences are not deductible for the Group at year end 2020 and 2019. In accordance with article 48 (4) CRR the non-deductible amount is risk weighted with 250% and considered within the credit risk. Deferred tax assets that rely on future profitability but do not arise from temporary differences are not subject to any threshold (i.e. are completely deducted from CET1).
Details regarding deferred tax assets are disclosed under Note 25 Tax assets and liabilities.

Subordinated liabilities

in HRK million	IFRS	effects – scope of consolidation	CRR	Regulatory adjustments	Own funds	2020 Own funds disclosure table – reference
Tier 2 capital instruments	**1,281**	**-**	**1,281**	**(895)**	**386**	**i**
Subordinated loan	1,281	-	1,281	(895)	386	

in HRK million	IFRS	effects – scope of consolidation	CRR	Regulatory adjustments	Own funds	2019 Own funds disclosure table – reference
Tier 2 capital instruments	**1,265**	**-**	**1,265**	**(630)**	**635**	**i**
Subordinated loan	1,265		1,265	(630)	635	

Details regarding subordinated liabilities are disclosed under Note 18 Financial liabilities measured at amortised costs.

45. Own funds and capital requirements (continued)

Own funds disclosure

Disclosure requirements covered: Art. 437 (1) (d) (e) CRR

The Group does not consider Art. 437 (1) (f) CRR for the calculation of consolidated own funds.

Based on the Regulation (EU) 2017/2395 of the European Parliament and of the Council, the Group does not apply the transitional period for mitigating the impact of IFRS 9 on own funds that arise from the calculation of the expected credit loss.

The table below presents the composition of the regulatory capital based on the Commission Implementing Regulation (EU) No 1423/2013 on the disclosure of own funds published in the Official Journal of the EU.

The transitional provisions which are applied by the Group are based on the CNB's decision on implementing standard of CRR.

45. Own funds and capital requirements (continued)

in HRK million		(A) 31 December 2020	(B) Regulation (EU) No 575/2013 article reference	(C) Reference to the tables
Common Equity Tier 1: instruments and reserves				
1	Capital instruments and the related share premium accounts	3,499	26(1), 27, 28, 29	
	of which: Ordinary shares	1,698	EBA list 26(3)	a
	of which: Share premium	1,801	EBA list 26(3)	b
	of which: instrument type 3	-	EBA list 26(3)	
2	Retained earnings	5,758	26(1)(c)	d
3	Accumulated other comprehensive income (and other reserves)	371	26(1)	f
3a	Funds for general banking risks	85	26(1)(f)	c
4	Amount of qualifying items referred to in Article 484(3 and the related share premium subject to phase out from CET 1	-	486(2)	
5	Minority interests (amount allowed in consolidated CET1)	-	84	
5a	Independently verified interim profits net of any foreseeable charge or dividend	293	26(2)	e
6	**Common Equity Tier 1 (CET1) capital before regulative adjustments**	**10,006**	**Sum of rows 1 to 5a.**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative value)	(12)	34, 105	
8	Intangible assets (net of related tax liabilities) (negative amount)	(369)	36(1)(b), 37	g
9	Empty set in the EU	-		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability, where the conditions in Article 38(3 are met) (negative amount)	(26)	36(1)(c), 38	h
11	Fair value reserves related to gains or losses on cash flow hedges	-	33(1)(a)	
12	Negative amounts resulting from the calculation of expected loss amounts	-	36(1)(d), 40, 159	
13	Any increase in equity that results from securitised assets (negative amount)	-	32(1)	
14	Gains or loss on liabilities valued at fair value resulting from changes in own credit standing	(2)	33(1)(b)	
15	Defined-benefit pension fund assets (negative amount)	-	36(1)(e), 41	
16	Direct and indirect holdings by an institution of CET1 instruments (negative value)	-	36(1)(f), 42	
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities has reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	36(1)(g), 44	
18	Direct, indirect and synthetic holdings capital investments by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% and net of eligible short positions) (negative amount)	-	36(1)(h), 43, 45, 46, 49(2) and (3), 79	
19	Direct, indirect and synthetic holdings capital investments by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% and net of eligible short positions) (negative amount)	-	36(1)(i), 43, 45, 47, 48(1)(b), 49(1) to (3), 79	
20	CET1 capital elements or deductions – other	(70)		
20a	The exposure amount of the following items which quality for RW of 1250% where the institution opts for the deduction alternative	-	36(1)(k)	
20b	of which: qualifying holdings outside the financial sector (negative amount)	-	36(1)(k) point i), 89 to 91	
20c	of which: securitised positions (negative amount)	-	36(1)(k) point ii), 243(1)(b), 244(1)(b), 258	
20d	of which: free deliveries (negative amount)	-	36(1)(k) point iii), 379(3)	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38(3 are met) (negative amount)	-	36(1)(c), 38, 48(1)(a)	
22	Amount exceeding 15% threshold (negative amount)	-	48(1)	
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	36(1)(i), 48(1)(b)	
24	Empty set in the EU	-		
25	of which: deferred tax receivables arising from temporary differences	-	36(1)(c), 38, 48(1)(a)	
25a	Losses for the current financial year (negative amount)	-	36(1)(a)	
25b	Foreseeable tax charges relating to CET 1 items (negative amount)	-	36(1)(l)	
27	Qualifying AT1 deductions that exceed the AT 1 capital of the institution (negative amount)	-	36(1)(j)	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(479)**	**Sum of rows 7 to 20a, 21, 22 and 25a to 27**	
29	**Common Equity Tier 1 (CET1) capital**	**9,527**	**Row 6 minus row 28**	
Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	-	51, 52	
31	of which: classified as equity under applicable accounting standards	-		
32	of which: classified as liabilities under applicable accounting standards	-		

This table is continued on the following page.

45. Own funds and capital requirements (continued)

in HRK million		(A) 31 December 2020	(B) Regulation (EU) No 575/2013 article reference	(C) Reference to the tables
33	Amount of qualified items referred to in Article 484(4 and the related share premium account subject to phase out from AT1	-	486(3)	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	85, 86	
35	of which: instruments issued by subsidiaries subject to phase out	-	486(3)	
36	**Additional Tier 1 capital items before regulatory adjustments**	**-**	**Sum of rows 30, 33 and 34.**	
Additional Tier 1: regulatory adjustments				
37	Direct and indirect capital investments by an institution of own AT 1 instruments (negative amount)	-	52(1)(b), 56(a), 57	
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificialy the own funds of the institution (negative amount)	-	56(b), 58	
39	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56(c), 59, 60, 79	
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56(d), 59, 79	
41	Empty set in the EU	-		
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount) (negative amount)	-	56(e)	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-**	**Sum of rows 37 to 42**	
44	**Additional Tier 1 (AT1) capital**	**-**	**Row 36 minus row 43**	
45	**Tier 1 capital (T1=CET1 + AT1)**	**9,527**	**Sum of rows 29 and 44**	
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	386	62, 63	i
47	Amount of qualifying items referred to in Article 484(5 and the related share premium accounts subject to phase out from T2	-	486(4)	
48	Qualifying own instruments included in consolidated T2 capital (including minority interests and AT 1 instruments not included in row 5 or row 34) issued by subsidiaries and held by third parties	-	87, 88	
49	of which: instruments issued by subsidiaries subject to phase out	-	486(4)	
50	Credit risk adjustments	228	62(c) and (d)	
51	**Tier 2 (T2) capital before regulative adjustments**	**614**		
Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	63(b) (i), 66(a), 67	
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	66(b), 68	
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	66(c), 69, 70, 79	
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	66(d), 69, 79	
56	Empty set in the EU	-		
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-**	**Sum of rows 52 to 56**	
58	**Tier 2 (T2) capital**	**614**	**Row 51 minus row 57**	
59	**Total capital = (TC=T1+T2)**	**10,141**	**Sum of rows 45 and 58**	
60	**Total risk weighted assets**	**54,361**		
Capital ratios and buffers				
61	**Common Equity Tier 1 (as a percentage of the risk exposure amount)**	**17.53%**	**92(2)(a)**	
62	**Tier 1 (as a percentage of the risk exposure amount)**	**17.53%**	**92(2)(b)**	
63	**Total capital (as a percentage of the total risk exposure amount)**	**18.65%**	**92(2)(c)**	
64	**Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1 (a) plus capital conservation and countercyclical buffer requirements, plus systematic risk buffer, plus systematically important institution buffer expressed as a percentage of risk exposure amount)**	**10.50%**	**CRD 128, 129, 130, 131, 133**	
65	**of which: capital conservation buffer requirement**	**2.50%**		
66	**of which: countercyclical buffer requirement**	**-**		

This table is continued on the following page.

45. Own funds and capital requirements (continued)

in HRK million		(A) 31 December 2020	(B) Regulation (EU) No 575/2013 article reference	(C) Reference to the tables
67	**of which: systemic risk buffer requirement**	**1.50%**		
67a	**of which: Global systemic important Institution (G-III) or other Systematically Important Institution (O-SII)buffer**	**2.00%**		
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)**	**6.63%**	**CRD 128**	
69	[not relevant in the EU Regulation]	-		
70	[not relevant in the EU Regulation]	-		
71	[not relevant in the EU Regulation]	-		
Amounts below the threshold for deduction (before risk weighting)				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	8	36(1)(h), 46, 45, 56(c), 59, 60, 66(c), 69, 70	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	42	36(1)(i), 45, 48	
74	Empty set in the EU			
75	Deferred tax assets arising from temporary differences (amount below 10% of the threshold, net of related tax liability where the conditions in Article 38 (3 are met)		36(1)(c), 38, 48	
Applicable caps on the inclusion of provisions in Tier 2				
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	62	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	62	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	228	62	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	37,956	62	
Capital instruments subject to phase-out arrangements (only applicable between 1 January 2014 and 1 January 2022)				
80	Current cup on CET1 instruments subject to phase out arrangements	-	484(3), 486(2) and (5)	
81	Amount excluded from CET 1 due to cap (excess over cap after redemtions and maturities)	-	484(3), 486(2) and (5)	
82	Current cap on AT1 instruments subject to phase out arrangements	-	484(4), 486(3) and (5)	
83	Amount excluded from AT 1 due to cap (excess over cap after redemptions and maturities)	-	484(4), 486(3) and (5)	
84	Current cap on T2 instruments subject to phase out arrangements	-	484(5), 486(4) and (5)	
85	Amount excluded from T2 due to cap (excess over cap redemptions and maturities)	-	484(5), 486(4) and (5)	

45. Own funds and capital requirements (continued)

in HRK million		(A) 31 December 2019	(B) Regulation (EU) No 575/2013 article reference	(C) Reference to the tables
Common Equity Tier 1: instruments and reserves				
1	Capital instruments and the related share premium accounts	3,499	26(1), 27, 28, 29	
	of which: Ordinary shares	1,698	EBA list 26(3)	a
	of which: Share premium	1,801	EBA list 26(3)	b
	of which: instrument type 3	-	EBA list 26(3)	
2	Retained earnings	4,760	26(1)(c)	d
3	Accumulated other comprehensive income (and other reserves)	350	26(1)	f
3a	Funds for general banking risks	85	26(1)(f)	c
4	Amount of qualifying items referred to in Article 484(3 and the related share premium subject to phase out from CET 1	-	486(2)	
5	Minority interests (amount allowed in consolidated CET1)	-	84	
5a	Independently verified interim profits net of any foreseeable charge or dividend	673	26(2)	e
6	**Common Equity Tier 1 (CET1) capital before regulative adjustments**	**9,367**	**Sum of rows 1 to 5a.**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative value)	(30)	34, 105	
8	Intangible assets (net of related tax liabilities) (negative amount)	(352)	36(1)(b), 37	g
9	Empty set in the EU	-		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability, where the conditions in Article 38(3 are met) (negative amount)	(15)	36(1)(c), 38	h
11	Fair value reserves related to gains or losses on cash flow hedges	-	33(1)(a)	
12	Negative amounts resulting from the calculation of expected loss amounts	(10)	36(1)(d), 40, 159	
13	Any increase in equity that results from securitised assets (negative amount)	-	32(1)	
14	Gains or loss on liabilities valued at fair value resulting from changes in own credit standing	(1)	33(1)(b)	
15	Defined-benefit pension fund assets (negative amount)	-	36(1)(e), 41	
16	Direct and indirect holdings by an institution of CET1 instruments (negative value)	-	36(1)(f), 42	
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities has reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	36(1)(g), 44	
18	Direct, indirect and synthetic holdings capital investments by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% and net of eligible short positions) (negative amount)	-	36(1)(h), 43, 45, 46, 49(2) and (3), 79	
19	Direct, indirect and synthetic holdings capital investments by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% and net of eligible short positions) (negative amount)	-	36(1)(i), 43, 45, 47, 48(1)(b), 49(1) to (3), 79	
20	CET1 capital elements or deductions – other	-		
20a	The exposure amount of the following items which quality for RW of 1250% where the institution opts for the deduction alternative	-	36(1)(k)	
20b	of which: qualifying holdings outside the financial sector (negative amount)	-	36(1)(k) point i), 89 to 91	
20c	of which: securitised positions (negative amount)	-	36(1)(k) point ii), 243(1)(b), 244(1)(b), 258	
20d	of which: free deliveries (negative amount)	-	36(1)(k) point iii), 379(3)	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38(3 are met) (negative amount)	-	36(1)(c), 38, 48(1)(a)	
22	Amount exceeding 15% threshold (negative amount)	-	48(1)	
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	36(1)(i), 48(1)(b)	
24	Empty set in the EU	-		
25	of which: deferred tax receivables arising from temporary differences	-	36(1)(c), 38, 48(1)(a)	
25a	Losses for the current financial year (negative amount)	-	36(1)(a)	
25b	Foreseeable tax charges relating to CET 1 items (negative amount)	-	36(1)(l)	
27	Qualifying AT1 deductions that exceed the AT 1 capital of the institution (negative amount)	-	36(1)(j)	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(408)**	**Sum of rows 7 to 20a, 21, 22 and 25a to 27**	
29	**Common Equity Tier 1 (CET1) capital**	**8,959**	**Row 6 minus row 28**	
Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	-	51, 52	

This table is continued on the following page.

45. Own funds and capital requirements (continued)

in HRK million		(A) 31 December 2019	(B) Regulation (EU) No 575/2013 article reference	(C) Reference to the tables
31	of which: classified as equity under applicable accounting standards	-		
32	of which: classified as liabilities under applicable accounting standards	-		
33	Amount of qualified items referred to in Article 484(4 and the related share premium account subject to phase out from AT1	-	486(3)	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	85, 86	
35	of which: instruments issued by subsidiaries subject to phase out	-	486(3)	
36	**Additional Tier 1 capital items before regulatory adjustments**	**-**	**Sum of rows 30, 33 and 34.**	
Additional Tier 1: regulatory adjustments				
37	Direct and indirect capital investments by an institution of own AT 1 instruments (negative amount)	-	52(1)(b), 56(a), 57	
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificialy the own funds of the institution (negative amount)	-	56(b), 58	
39	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56(c), 59, 60, 79	
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56(d), 59, 79	
41	Empty set in the EU	-		
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount) (negative amount)	-	56(e)	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-**	**Sum of rows 37 to 42**	
44	**Additional Tier 1 (AT1) capital**	**-**	**Row 36 minus row 43**	
45	**Tier 1 capital (T1=CET1 + AT1)**	**8,959**	**Sum of rows 29 and 44**	
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	635	62, 63	i
47	Amount of qualifying items referred to in Article 484(5 and the related share premium accounts subject to phase out from T2	-	486(4)	
48	Qualifying own instruments included in consolidated T2 capital (including minority interests and AT 1 instruments not included in row 5 or row 34) issued by subsidiaries and held by third parties	-	87, 88	
49	of which: instruments issued by subsidiaries subject to phase out	-	486(4)	
50	Credit risk adjustments	196	62(c) and (d)	
51	**Tier 2 (T2) capital before regulative adjustments**	**831**		
Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	63(b) (i), 66(a), 67	
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	66(b), 68	
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	66(c), 69, 70, 79	
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	66(d), 69, 79	
56	Empty set in the EU	-		
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-**	**Sum of rows 52 to 56**	
58	**Tier 2 (T2) capital**	**831**	**Row 51 minus row 57**	
59	**Total capital = (TC=T1+T2)**	**9,790**	**Sum of rows 45 and 58**	
60	**Total risk weighted assets**	**49,955**		
Capital ratios and buffers				
61	**Common Equity Tier 1 (as a percentage of the risk exposure amount)**	**17.93%**	**92(2)(a)**	
62	**Tier 1 (as a percentage of the risk exposure amount)**	**17.93%**	**92(2)(b)**	
63	**Total capital (as a percentage of the total risk exposure amount)**	**19.60%**	**92(2)(c)**	

This table is continued on the following page.

45. Own funds and capital requirements (continued)

	in HRK million	(A) 31 December 2019	(B) Regulation (EU) No 575/2013 article reference	(C) Reference to the tables
64	**Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1 (a) plus capital conservation and countercyclical buffer requirements, plus systematic risk buffer, plus systematically important institution buffer expressed as a percentage of risk exposure amount)**	**10.00%**	**CRD 128, 129, 130, 131, 133**	
65	**of which: capital conservation buffer requirement**	**2.50%**		
66	**of which: countercyclical buffer requirement**	**-**		
67	**of which: systemic risk buffer requirement**	**3.00%**		
67a	**of which: Global systemic important Institution (G-III) or other Systematically Important Institution (O-SII)buffer**	**-**		
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)**	**7.13%**	**CRD 128**	
69	[not relevant in the EU Regulation]	-		
70	[not relevant in the EU Regulation]	-		
71	[not relevant in the EU Regulation]	-		
Amounts below the threshold for deduction (before risk weighting)				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	10	36(1)(h), 45, 46, 56(c), 59, 60, 66(c), 69, 70	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	43	36(1)(i), 45, 48	
74	Empty set in the EU			
75	Deferred tax assets arising from temporary differences (amount below 10% of the threshold, net of related tax liability where the conditions in Article 38 (3 are met)		36(1)(c), 38, 48	
Applicable caps on the inclusion of provisions in Tier 2				
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	62	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	62	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	196	62	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	32,630	62	
Capital instruments subject to phase-out arrangements (only applicable between 1 January 2014 and 1 January 2022)				
80	Current cup on CET1 instruments subject to phase out arrangements	-	484(3), 486(2) and (5)	
81	Amount excluded from CET 1 due to cap (excess over cap after redemtions and maturities)	-	484(3), 486(2) and (5)	
82	Current cap on AT1 instruments subject to phase out arrangements	-	484(4), 486(3) and (5)	
83	Amount excluded from AT 1 due to cap (excess over cap after redemptions and maturities)	-	484(4), 486(3) and (5)	
84	Current cap on T2 instruments subject to phase out arrangements	-	484(5), 486(4) and (5)	
85	Amount excluded from T2 due to cap (excess over cap redemptions and maturities)	-	484(5), 486(4) and (5)	

Forms according to local requirements

Pursuant to the Decision of the CNB on structure and content of Bank's annual financial statements (Official Gazette 42/18) below we present the required forms for the Group and the Bank for the year ended 31 December 2020 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, income statement, changes in equity as well as cash flow statement are also included in the notes.
Differences between forms (appendix 1) presented below on pages 277 to 280 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		**2019**	**2020**
1.	Interest income	2,386	2,327
2.	(Interest expenses)	340	282
3.	(Expenses on share capital repayable on demand)	-	-
4.	Dividend income	1	1
5.	Fees and commissions income	1,057	925
6.	(Fees and commissions expenses)	254	231
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	211	199
9.	Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	4	(14)
10.	Gains or (-) losses on financial assets and liabilities at fair value through profit or loss, net	-	-
11.	Gains or (-) losses from hedge accounting, net	-	-
12.	Exchange rate differences [gain or (-) loss], net	23	12
13.	Gains or (-) losses on derecognition of non-financial assets, net	26	6
14.	Other operating income	157	128
15.	(Other operating expenses)	52	64
16.	**Total operating income, net (1 – 2 – 3 + 4 + 5 – 6 + from 7 to 14 – 15)**	**3,220**	**3,007**
17.	(Administrative expenses)	1,322	1,274
18.	(Cash contributions to resolution boards and deposit guarantee schemes)	107	136
19.	(Depreciation)	248	251
20.	Modification gains or (-) losses, net	(1)	(30)
21.	(Provisions or (-) reversal of provisions)	321	146
22.	(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	-	671
23.	(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	-	-
24.	(Impairment or (-) reversal of impairment on non-financial assets)	19	25
25.	Negative goodwill recognised in profit or loss	-	-
26.	Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	9	8
27.	Profit or (-) loss from fixed assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	-
28.	**Profit or (-) loss before tax from continuing operations (16 – 17 – 18 + 19 +20 from 21 to 24 + from 25 to 27)**	**1,211**	**482**
29.	(Tax expense or (-) income related to profit or loss from continuing operations)	229	10
30.	**Profit or (-) loss after tax from continuing operations (28 – 29)**	**982**	**472**
31.	**Profit or (-) loss after tax from discontinued operations (31 – 32)**	**-**	**-**
32.	Profit or (-) loss before tax from discontinued operations	-	-
33.	(Tax expense or (-) income related to discontinued operations)	-	-
34.	**Profit or (–) loss for the year (30 + 31; 35 + 36)**	**982**	**472**
35.	Attributable to minority interest [non-controlling interests]	20	12
36.	Attributable to owners of the parent	962	460
STATEMENT OF OTHER COMPREHENSIVE INCOME			
37.	Income or (-) loss for the current year	982	472
38.	**Other comprehensive income (39 + 51)**	**126**	**35**
39.	**Items that will not be reclassified to profit or loss (from 40 to 46) + 49 + 50)**	**41**	**2**
40.	Tangible assets	-	-
41.	Intangible assets	-	-
42.	Actuarial gains or (-) losses on defined benefit pension plans	(1)	-
43.	Fixed assets and disposal groups classified as held for sale	-	-
44.	Share of other recognised income and expense of entities accounted for using the equity method	-	-
45.	Fair value changes of equity instruments measured at fair value through other comprehensive income	51	2
46.	Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-
47.	Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-
48.	Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-
49.	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		2019	2020
50.	Income tax relating to items that will not be reclassified	(9)	-
51.	**Items that may be reclassified to profit or loss (from 52 to 59)**	**85**	**33**
52.	Hedge of net investments in foreign operations [effective portion]	-	-
53.	Foreign currency translation	2	8
54.	Cash flow hedges [effective portion]	-	-
55.	Hedging instruments [not designated elements]	-	-
56.	Debt instruments at fair value through other comprehensive income	99	32
57.	Fixed assets and disposal groups classified as held for sale	-	-
58.	Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	-	-
59.	Income tax relating to items that may be reclassified to profit or (-) loss	(16)	(7)
60.	**Total comprehensive income for the current year (37 + 38; 61 + 62)**	**1,108**	**507**
61.	Attributable to minority interest [non-controlling interest]	20	12
62.	Attributable to owners of the parent	1,088	495

Income statement			BANK
In HRK million		2019	2020
1.	Interest income	1,889	1,859
2.	(Interest expenses)	276	221
3.	(Expenses on share capital repayable on demand)	-	-
4.	Dividend income	69	11
5.	Fees and commissions income	690	597
6.	(Fees and commissions expenses)	186	164
7.	Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	-	-
8.	Gains or (-) losses on financial assets and liabilities held for trading, net	211	192
9.	Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	3	(18)
10.	Gains or (-) losses on financial assets and liabilities at fair value through profit or loss, net	-	-
11.	Gains or (-) losses from hedge accounting, net	-	-
12.	Exchange rate differences [gain or (-) loss], net	17	19
13.	Gains or (-) losses on derecognition of non-financial assets, net	23	(3)
14.	Other operating income	33	31
15.	(Other operating expenses)	28	32
16.	**Total operating income, net (1 – 2 – 3 + 4 + 5 – 6 + from 7 to 14 – 15)**	**2,445**	**2,271**
17.	(Administrative expenses)	961	930
18.	(Cash contributions to resolution boards and deposit guarantee schemes)	93	121
19.	(Depreciation)	114	131
20.	Modification gains or (-) losses, net	(1)	(30)
21.	(Provisions or (-) reversal of provisions)	316	147
22.	(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	30	511
23.	(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	-	-
24.	(Impairment or (-) reversal of impairment on non-financial assets)	11	17
25.	Negative goodwill recognised in profit or loss	-	-
26.	Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	-	-
27.	Profit or (-) loss from fixed assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	-
28.	**Profit or (-) loss before tax from continuing operations (16 – 17 – 18 + 19 +20 from 21 to 24 + from 25 to 27)**	**919**	**384**
29.	(Tax expense or (-) income related to profit or loss from continuing operations)	166	(6)
30.	**Profit or (-) loss after tax from continuing operations (28 – 29)**	**753**	**390**
31.	**Profit or (-) loss after tax from discontinued operations (31 – 32)**	**-**	**-**
32.	Profit or (-) loss before tax from discontinued operations	-	-
33.	(Tax expense or (-) income related to discontinued operations)	-	-
34.	**Profit or (–) loss for the year (30 + 31; 35 + 36)**	**753**	**390**
35.	Attributable to minority interest [non-controlling interests]	-	-
36.	Attributable to owners of the parent	753	390
STATEMENT OF OTHER COMPREHENSIVE INCOME			**-**
37.	Income or (-) loss for the current year	753	390
38.	**Other comprehensive income (39 + 51)**	**109**	**42**
39.	**Items that will not be reclassified to profit or loss (from 40 to 46) + 49 + 50)**	**37**	**1**
40.	Tangible assets	-	-
41.	Intangible assets	-	-
42.	Actuarial gains or (-) losses on defined benefit pension plans	-	-
43.	Fixed assets and disposal groups classified as held for sale	-	-
44.	Share of other recognised income and expense of entities accounted for using the equity method	-	-
45.	Fair value changes of equity instruments measured at fair value through other comprehensive income	45	1
46.	Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-
47.	Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-
48.	Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-
49.	Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-
50.	Income tax relating to items that will not be reclassified	(8)	-
51.	**Items that may be reclassified to profit or loss (from 52 to 59)**	**72**	**41**
52.	Hedge of net investments in foreign operations [effective portion]	-	-
53.	Foreign currency translation	-	-
54.	Cash flow hedges [effective portion]	-	-
55.	Hedging instruments [not designated elements]	-	-
56.	Debt instruments at fair value through other comprehensive income	88	50
57.	Fixed assets and disposal groups classified as held for sale	-	-
58.	Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	-	-
59.	Income tax relating to items that may be reclassified to profit or (-) loss	(16)	(9)
60.	**Total comprehensive income for the current year (37 + 38; 61 + 62)**	**862**	**432**
61.	Attributable to minority interest [non-controlling interest]	-	-
62.	Attributable to owners of the parent	862	432

Statement of financial position

	In HRK million		GROUP
		2019	2020
	ASSETS		
1.	**Cash, cash balances at central banks and other demand deposits (from 2 to 4)**	**5,105**	**8,673**
2.	Cash on hand	2,558	3,336
3.	Cash balances at central banks	1,958	4,957
4.	Other demand deposits	589	380
5.	**Financial assets held for trading (from 6 to 9)**	**225**	**162**
6.	Derivatives	39	118
7.	Equity instruments	-	-
8.	Debt securities	186	44
9.	Loans and advances		-
10.	**Non-trading financial assets mandatorily at fair value through profit or loss (from 11 to 13)**	**199**	**188**
11.	Equity instruments	176	163
12.	Debt securities	23	25
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)**	**10,604**	**11,278**
18.	Equity instruments	162	130
19.	Debt securities	10,442	11,148
20.	Loans and advances	-	-
21.	**Financial assets at amortised cost (22 + 23)**	**55,285**	**59,757**
22.	Debt securities	1,642	2,361
23.	Loans and advances	53,643	57,396
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	58	66
27.	Tangible assets	1,344	1,241
28.	Intangible assets	376	390
29.	Tax assets	199	320
30.	Other assets	471	394
31.	Non-current assets and disposal groups classified as held for sale	-	-
32.	**TOTAL ASSEST (1+5+10+14+17+21+ from 24 to 31)**	**73,866**	**82,469**
	LIABILITIES		
33.	**Financial liabilities held for trading (from 34 to 38)**	**36**	**106**
34.	Derivatives	36	106
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)**	**62,788**	**70,738**
44.	Deposits	61,139	69,176
45.	Debt securities issued	672	677
46.	Other financial liabilities	977	885
47.	Derivatives – Hedge accounting	-	-
48.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
49.	Provisions	494	582
50.	Tax liabilities	29	10
51.	Share capital repayable on demand	-	-
52.	Other liabilities	641	649
53.	Liabilities included in disposal groups classified as held for sale	-	-
54.	**TOTAL LIABILITIES (33+39+43+ from 47 to 53)**	**63,988**	**72,085**
	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	350	371
60.	Retained profit	4,794	5,771
61.	Revaluation reserves	-	-
62.	Other reserves	85	85
63.	Treasury shares	-	-
64.	Profit or loss attributable to owners of the parent	962	460
65.	Interim dividends	-	-
66.	Minority interests [Non-controlling interests]	188	198
67.	**TOTAL EQUITY (from 55 to 66)**	**9,878**	**10,384**
68.	**TOTAL LIABILITIES AND EQUITY (54+67)**	**73,866**	**82,469**

Statement of financial position			BANK
In HRK million		2019	2020
	ASSETS		
1.	**Cash, cash balances at central banks and other demand deposits (from 2 to 4)**	**4,339**	**7,947**
2.	Cash on hand	2,407	3,095
3.	Cash balances at central banks	1,708	4,763
4.	Other demand deposits	224	89
5.	**Financial assets held for trading (from 6 to 9)**	**226**	**162**
6.	Derivatives	40	118
7.	Equity instruments		-
8.	Debt securities	186	44
9.	Loans and advances	-	-
10.	**Non-trading financial assets mandatorily at fair value through profit or loss (from 11 to 13)**	**25**	**69**
11.	Equity instruments	25	44
12.	Debt securities	-	25
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)**	**9,961**	**10,704**
18.	Equity instruments	147	114
19.	Debt securities	9,814	10,590
20.	Loans and advances	-	-
21.	**Financial assets at amortised cost (22 + 23)**	**47,005**	**51,918**
22.	Debt securities	1,464	2,180
23.	Loans and advances	45,541	49,738
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	1,027	936
27.	Tangible assets	806	812
28.	Intangible assets	121	135
29.	Tax assets	75	222
30.	Other assets	356	311
31.	Non-current assets and disposal groups classified as held for sale	-	-
32.	**TOTAL ASSEST (1+5+10+14+17+21+ from 24 to 31)**	**63,941**	**73,216**
	LIABILITIES		
33.	**Financial liabilities held for trading (from 34 to 38)**	**36**	**106**
34.	Derivatives	36	106
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)**	**54,634**	**63,404**
44.	Deposits	53,730	62,462
45.	Debt securities issued	672	677
46.	Other financial liabilities	232	265
47.	Derivatives – Hedge accounting	-	-
48.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
49.	Provisions	453	545
50.	Tax liabilities	8	-
51.	Share capital repayable on demand	-	-
52.	Other liabilities	427	424
53.	Liabilities included in disposal groups classified as held for sale	-	-
54.	**TOTAL LIABILITIES (33+39+43+ from 47 to 53)**	**55,558**	**64,479**
	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	314	342
60.	Retained profit	3,732	4,421
61.	Revaluation reserves	-	-
62.	Other reserves	85	85
63.	Treasury shares	-	-
64.	Profit or loss attributable to owners of the parent	753	390
65.	Interim dividends	-	-
66.	Minority interests [Non-controlling interests]	-	-
67.	**TOTAL EQUITY (from 55 to 66)**	**8,383**	**8,737**
68.	**TOTAL LIABILITIES AND EQUITY (54+67)**	**63,941**	**73,216**

Statement of changes in equity

In HRK million	Attributable to owners of the parent											Non-controlling interests		GROUP
	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 comprehensiv e income	Other items	Total
Opening balance [before restatement]	1,698	1,801	-	-	350	4,794	-	85	-	962	-	-	188	9,878
Effects of error corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effect of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance (current period) (1 + 2 + 3)	1,698	1,801	-	-	350	4,794	-	85	-	962	-	-	188	9,878
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	-	-	-	-	-	-	-	-	-	-	-	-	(2)	(2)
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	-	-	-	-	-	962	-	-	-	(962)	-	-	-	-
Share based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other increase or (-) decrease of equity instruments	-	-	-	-	(14)	15	-	-	-	-	-	-	-	1
Total comprehensive income for the current year	-	-	-	-	35	-	-	-	-	460	-	-	12	507
Equity instruments increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance [current period] (from 4 to 20)	1,698	1,801	-	-	371	5,771	-	85	-	460	-	-	198	10,384

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	-	-	314	3,732	-	85	-	753	-	-	-	8,383
Effects of error corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effect of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance (current period) (1 + 2 + 3)	1,698	1,801	-	-	314	3,732	-	85	-	753	-	-	-	8,383
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	753	-	-	-	(753)	-	-	-	-
Share-based Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease of equity instruments	-	-	-	-	(14)	14	-	-	-	-	-	-	-	-
Total comprehensive income for the current year	-	-	-	-	42	-	-	-	-	390	-	-	-	432
Equity instruments increase or (-) decrease resulting from business combination	-	-	-	-	-	(78)	-	-	-	-	-	-	-	(78)
Closing balance [current period] (from 4 to 20)	1,698	1,801	-	-	342	4,421	-	85	-	390	-	-	-	8,737

Cash flow statements			GROUP
	In HRK million	**2019**	**2020**
	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	1,211	482
	Adjustments:	-	-
10.	Impairment and provisions	340	862
11.	Depreciation	248	251
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	(11)	(1)
14.	Other non-cash items	220	1
	Changes in assets and liabilities from operating activities		
15.	Deposits with the Croatian National Bank	(224)	(572)
16.	Deposits with financial institutions and loans to financial institutions	875	894
17.	Loans and advances to other clients	(4,640)	(6,615)
18.	Securities and other financial instruments at fair value through other comprehensive income	(3,952)	(907)
19.	Securities and other financial instruments held for trading	59	142
20.	Securities and other financial instruments at fair value through statement of profit or loss, not traded	-	46
21.	Securities and other financial instruments at fair value through statement of profit or loss	(34)	-
22.	Securities and other financial instruments at amortised cost	(404)	(757)
23.	Other assets from operating activities	(242)	1
24.	Deposits from financial institutions	(252)	(404)
25.	Transaction accounts of other clients	3,280	9,052
26.	Savings deposits of other clients	551	400
27.	Time deposits of other clients	(1,632)	(638)
28.	Derivative financial liabilities and other traded liabilities	9	69
29.	Other liabilities from operating activities	1,502	(235)
30.	Interest received from operating activities [indirect method]	2,267	2,143
31.	Dividends received from operating activities [indirect method]	10	-
32.	Interest paid from operating activities [indirect method]	(338)	(314)
33.	(Income tax paid)	(303)	(161)
34.	**Net cash flow from operating activities (from 1 to 33)**	**(1,460)**	**3,739**
	Investing activities		
35.	Cash receipts from the sale / payments for the purchase of tangible and intangible assets	(232)	(152)
36.	Cash receipts from the sale / payments for the purchase of investments in branches, associates and joint ventures	-	5
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)**	**(232)**	**(147)**
	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)	(291)	(2)
46.	Other receipts/(payments) from financing activities	(29)	(19)
47.	**Net cash flow from financing activities (from 41 to 46)**	**(320)**	**(21)**
48.	**Net increase/(decrease) of cash and cash equivalents (34 + 40 + 47)**	**(2,012)**	**3,571**
49.	**Cash and cash equivalents at the beginning of period**	**6,909**	**4,897**
50.	Effect of exchange rate fluctuations on cash and cash equivalents	-	-
51.	**Cash and cash equivalents at the end of period (48 + 49 + 50)**	**4,897**	**8,468**

Cash flow statements			BANK
	In HRK million	**2019**	**2020**
	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	919	384
	Adjustments:	-	-
10.	Impairment and provisions	357	713
11.	Depreciation	114	131
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	(11)	(1)
14.	Other non-cash items	(69)	(7)
	Changes in assets and liabilities from operating activities		
15.	Deposits with the Croatian National Bank	(224)	(572)
16.	Deposits with financial institutions and loans to financial institutions	1,063	869
17.	Loans and advances to other clients	(2,945)	(6,096)
18.	Securities and other financial instruments at fair value through other comprehensive income	(3,926)	(936)
19.	Securities and other financial instruments held for trading	59	142
20.	Securities and other financial instruments at fair value through statement of profit or loss, not traded	-	19
21.	Securities and other financial instruments at fair value through statement of profit or loss	(3)	-
22.	Securities and other financial instruments at amortised cost	(474)	(744)
23.	Other assets from operating activities	59	(53)
24.	Deposits from financial institutions	(323)	(397)
25.	Transaction accounts of other clients	2,633	9,135
26.	Savings deposits of other clients	632	435
27.	Time deposits of other clients	(1,554)	(770)
28.	Derivative financial liabilities and other traded liabilities	1	68
29.	Other liabilities from operating activities	496	(213)
30.	Interest received from operating activities [indirect method]	1,900	1,793
31.	Dividends received from operating activities [indirect method]	69	4
32.	Interest paid from operating activities [indirect method]	(272)	(253)
33.	(Income tax paid)	(253)	(122)
34.	**Net cash flow from operating activities (from 1 to 33)**	**(1,752)**	**3,529**
	Investing activities		
35.	Cash receipts from the sale / payments for the purchase of tangible and intangible assets	(139)	(112)
36.	Cash receipts from the sale / payments for the purchase of investments in branches, associates and joint ventures	-	222
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)**	**(139)**	**110**
	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)	(289)	-
46.	Other receipts/(payments) from financing activities	(27)	(26)
47.	**Net cash flow from financing activities (from 41 to 46)**	**(316)**	**(26)**
48.	**Net increase/(decrease) of cash and cash equivalents (34 + 40 + 47)**	**(2,207)**	**3,613**
49.	**Cash and cash equivalents at the beginning of period**	**6,336**	**4,129**
50.	Effect of exchange rate fluctuations on cash and cash equivalents	-	-
51.	**Cash and cash equivalents at the end of period (48 + 49 + 50)**	**4,129**	**7,742**

	Off balance sheet items		
			GROUP
		2019	2020
1.	Guarantees	2,931	3,584
2.	Letters of credit	170	109
3.	Bills of exchange	-	-
4.	Undrawn loans and loan commitments	6,646	7,519
5.	Other risk off balance items	6	9
6.	Futures	-	-
7.	Options	3	2
8.	Swaps	17,362	13,095
9.	Forwards	1,551	5,047
10.	Other derivatives	-	-

	Off balance sheet items		
			BANK
		2019	2020
1.	Guarantees	2,504	3,131
2.	Letters of credit	169	108
3.	Bills of exchange	-	-
4.	Undrawn loans and loan commitments	3,998	4,872
5.	Other risk off balance items	6	9
6.	Futures	-	-
7.	Options	3	2
8.	Swaps	18,250	13,171
9.	Forwards	1,551	5,047
10.	Other derivatives	-	-

					GROUP
Annual report (AR)	**in HRK million**	**Statement of financial position (CNB)**	**in HRK million**	**Diff.**	**Explanation**
Cash and cash balances	8,673	Cash on hand, Cash balances at Central bank and Other demand deposits	8,673	-	-
Financial assets held for trading	162	Financial assets held for trading	162	-	-
Non-trading financial assets at fair value through profit or loss – Equity instruments	36	Non-trading financial assets at fair value through profit or loss- Equity instruments	163	(127)	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	152	Non-trading financial assets at fair value through profit or loss- Debt securities	25	127	CNB- Equity instruments
Financial assets at fair value through other comprehensive income	11,278	Financial assets at fair value through other comprehensive income	11,278	-	-
Financial assets at amortised cost – Loans and advances	53,793				
Trade and other receivables	1,143				
Finance lease receivables	2,460	Financial assets at amortised cost- Loans and advances	57,396	-	-
Financial assets at amortised cost – Debt securities	2,361	Financial assets at amortised cost- Debt securities	2,361	-	-
Investments in subsidiaries, joint ventures and associates	59	Investments in associates, subsidiaries and joint ventures	66	(7)	AR - Other assets
Property and equipment	1,236				
Investment property	5	Tangible assets	1,241	-	-
Intangible assets	390	Intangible assets	390	-	-
Tax assets	320	Tax assets	320	-	-
Other assets	401	Other assets	394	7	CBN - Investments in associates, subsidiaries and joint ventures
TOTAL ASSETS	**82,469**	**TOTAL ASSETS**	**82,469**	**-**	**-**

					GROUP
Annual report (AR)	**in HRK million**	**Statement of financial position (CNB)**	**in HRK million**	**Diff.**	**Explanation**
Financial liabilities held for trading- Derivatives	106	Financial liabilities held for trading- Derivatives	106	-	-
Financial liabilities measured at amortised cost- Deposits	69,176	Financial liabilities measured at amortised cost- Deposits	69,176	-	-
Debt securities in issue	677	Debt securities in issue	677	-	-
Other financial liabilities	783				
Finance lease liabilities	102	Other financial liabilities	885	-	-
Provisions	582	Provisions	582	-	-
Tax liabilities	10	Tax liabilities	10	-	-
Other liabilities	649	Other liabilities	649	-	-
Total equity	10,384	Total equity	10,384	-	-
TOTAL LIABILITIES AND EQUITY	**82,469**	**TOTAL LIABILITIES AND EQUITY**	**82,469**	**-**	**-**

					GROUP
Annual report (AR)	in HRK million	Income statement (CNB)	in HRK million	Diff.	Explanation
Interest income	2,152			6	CNB- Gains or losses on financial assets and financial liabilities held for trading, net
Other similar income	161	Interest income	2,327	(20)	CNB - Modification gains or (-) losses, net
Interest expense	(224)				
Other similar expense	(64)	Interest expense	(282)	(6)	CNB- Gains or losses on financial assets and financial liabilities held for trading, net
Fee and commission income	925	Fees and commissions income	925	-	-
Fee and commission expense	(231)	Fees and commissions expenses	(231)	-	-
Net trading result	211	Gains or losses on financial assets and financial liabilities held for trading, net	199	-	-
		Exchange differences [gain or loss], net	12		
Personnel expenses	(718)	Administrative expenses	(1,274)	1	CNB- Other operating expense
Other administrative expenses	(648)	Depreciation	(251)	43	AR- Other operating result
Depreciation and amortisation	(251)	Cash contributions to resolution boards and deposit guarantee schemes	(136)		-
Other operating result	(126)	Gains or losses from derecognition of non-financial assets, net	6		
Rental income from investment properties & other operating leases	86	Other operating income	128		
Net impairment loss on financial instruments	(785)	Other operating expense	(64)		
Gains/losses from derecognition of financial assets measured at amortised cost	(1)	Provisions or cancellation of provisions	(146)	(1)	AR – Other administrative expenses
		Impairment or reversal of impairment on financial assets not measured at FVPL	(671)	20	AR - Interest income
		Modification gains or (-) losses, net	(30)	(43)	CNB - Cash contributions to resolution boards and deposit guarantee schemes
		Impairment of non-financial assets	(25)		
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	1	Dividend income	1	-	-
Gains/losses from financial instruments measured at fair value through profit or loss	(14)	Gains/losses from financial instruments measured at fair value through profit or loss	(14)	-	-
Pre-tax profit from continuing operations	**482**	**PRE-TAX PROFIT**	**482**	**-**	**-**
Income tax	(10)	Taxes on income	(10)	-	-
NET PROFIT OF THE YEAR	**472**	**NET PROFIT FOR THE PERIOD**	**472**	**-**	**-**

					BANK
Annual report (AR)	**in HRK million**	**Statement of financial position (CNB)**	**in HRK million**	**Diff.**	**Explanation**
Cash and cash balances	7,947	Cash on hand, Cash balances at Central bank and Other demand deposits	7,947	-	-
Financial assets held for trading	162	Financial assets held for trading	162	-	-
Non-trading financial assets at fair value through profit or loss – Equity instruments	36	Non-trading financial assets at fair value through profit or loss- Equity instruments	44	(8)	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	33	Non-trading financial assets at fair value through profit or loss- Debt securities	25	8	CNB – Equity instruments
Financial assets at fair value through other comprehensive income	10,704	Financial assets at fair value through other comprehensive income	10,704	-	-
Financial assets at amortised cost – Loans and advances	49,142				
Trade and other receivables	596	Financial assets at amortised cost- Loans and advances	49,738	-	-
Financial assets at amortised cost – Debt securities	2,180	Financial assets at amortised cost- Debt securities	2,180	-	-
Investments in subsidiaries, joint ventures and associates	929	Investments in associates, subsidiaries and joint ventures	936	(7)	AR - Other assets
Property and equipment	810				
Investment property	2	Tangible assets	812	-	-
Intangible assets	135	Intangible assets	135	-	-
Tax assets	222	Tax assets	222	-	-
Other assets	318	Other assets	311	7	CBN - Investments in associates, subsidiaries and joint ventures
TOTAL ASSETS	**73,216**	**TOTAL ASSETS**	**73,216**	**-**	**-**

					BANK
Annual report (AR)	**in HRK million**	**Statement of financial position (CNB)**	**in HRK million**	**Diff.**	**Explanation**
Financial liabilities held for trading- Derivatives	106	Financial liabilities held for trading- Derivatives	106	-	-
Financial liabilities measured at amortised cost- Deposits	62,462	Financial liabilities measured at amortised cost- Deposits	62,462	-	-
Debt securities in issue	677	Debt securities in issue	677	-	-
Other financial liabilities	163				
Finance lease liabilities	102	Other financial liabilities	265	-	-
Provisions	545	Provisions	545	-	-
Tax liabilities	-	Tax liabilities	-	-	-
Other liabilities	424	Other liabilities	424	-	-
Total equity	8,737	Total equity	8,737	-	-
TOTAL LIABILITIES AND EQUITY	**73,216**	**TOTAL LIABILITIES AND EQUITY**	**73,216**	**-**	**-**

					BANK
Annual report (AR)	**in HRK million**	**Income statement (CNB)**	**in HRK million**	**Diff.**	**Explanation**
Interest income	1,785			6	CNB- Gains or losses on financial assets and financial liabilities held for trading, net
Other similar income	59	Interest income	1,859	(21)	CNB - Modification gains or (-) losses, net
Interest expense	(166)				
Other similar expense	(61)	Interest expense	(221)	(6)	CNB- Gains or losses on financial assets and financial liabilities held for trading, net
Fee and commission income	597	Fees and commissions income	597	-	-
Fee and commission expense	(164)	Fees and commissions expenses	(164)	-	-
Net trading result	211	Gains or losses on financial assets and financial liabilities held for trading, net	192	-	-
		Exchange differences [gain or loss], net	19		
Personnel expenses	(522)	Administrative expenses	(930)	(1)	CNB- Other operating expense
Other administrative expenses	(487)	Depreciation	(131)	43	AR- Other operating result
Depreciation and amortisation	(131)	Cash contributions to resolution boards and deposit guarantee schemes	(121)		-
Other operating result	(107)	Gains or losses from derecognition of non-financial assets, net	(3)		
Rental income from investment properties & other operating leases	5	Other operating income	31		
Net impairment loss on financial instruments	(627)	Other operating expense	(32)		
Gains/losses from derecognition of financial assets measured at amortised cost	(1)	Provisions or cancellation of provisions	(147)	1	AR – Other administrative expenses
		Impairment or reversal of impairment on financial assets not measured at FVPL	(511)	21	AR - Interest income
		I Modification gains or (-) losses, net	(30)	(43)	CNB - Cash contributions to resolution boards and deposit guarantee schemes
		Impairment of non-financial assets	(17)		
Dividend income	11	Dividend income	11	-	-
Gains/losses from financial instruments measured at fair value through profit or loss	(18)	Gains/losses from financial instruments measured at fair value through profit or loss	(18)	-	-
Pre-tax profit from continuing operations	**384**	**P R E – T A X P R O F I T**	**384**	**-**	**-**
Income tax	6	Taxes on income	6	-	-
NET PROFIT OF THE YEAR	**390**	**NET PROFIT FOR THE PERIOD**	**390**	**-**	**-**