Erste&Steiermärkische Bank d.d.

Annual Report for the year ended 31 December 2018

CONTENTS

Introduction

This Annual report, issued to the shareholders of the Bank, 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 2018 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

The market environment in Croatia in 2018 exhibited several important characteristics. Positive characteristics include the maintenance of positive trends on the fiscal consolidation side and further announcements about Croatia joining the Eurozone, particularly against a backdrop of stronger involvement in the European integration space, long-term stability of the economy, and reduction of currency risk for citizens and businesses. However, introduction of the euro is not and should not be a goal in itself. In this context, implementing true structural reforms, finding an adequate answer to the emigration problem, reinforcing legal and political stability, and increasing the level of investment security become even more important.

First tangible responses to the growing challenges of digitalization

The consolidation trend that has been present in the banking market for some time has continued. In spite of maintaining the announced Eurozone course, demand for loans denominated in the domestic currency continued to increase last year, posing a significant challenge to the banking system. We also witnessed the first tangible responses by banks and card companies to the growing challenges of digitalization. The processes of acceleration of time-to-market, more frequent changes and adaptations of existing products, and comprehensive digital business transformation will continue next year at a faster pace.

Stable operations and new loan growth

We are pleased with our 2018 year-end results. Stable operations, new loan growth in retail and corporate segments, and responsible risk policy management provide confirmation that we are following the right business model. Lower provision costs in comparison with 2017, partly as a result of general positive portfolio trends and the lower NPL share, and partly a result of the fact that provision costs increased in 2017 due to the situation of the Agrokor conglomerate and its associate companies, were the main driver of the increase in net profit. In addition to new loan growth, our focus on SMEs helped us maintain and further strengthen our position as one of the market leaders. On the retail side, consumer lending was the main driver of new loan growth, while mortgages maintained a moderate upward trend.

Leading position in customer satisfaction and stable capital adequacy parameters

The Bank remained a market leader in customer satisfaction in retail, micro business and corporate segments and had stable capital adequacy parameters, a single-digit NPL share and a balanced loan-deposit ratio. The list of the characteristics of the Bank’s successful operations in 2018 is fulfilled by improved process efficiency and adequate progress in human resource management. Further focus on the development of digital channels as an important part of our long-term strategy resulted in the introduction of the first fully digitalized credit card application procedure in the Croatian market and the launch of an iPhone and Android app featuring special functionality to allow users to manage transactions in instalments. In addition, the Bank launched an app that lets users send and receive payments quickly, securely and free of charge. This is the first banking solution in the Croatian market designed for all users, regardless of the bank in which they have an account.

Report of the President of the Management Board (continued)

Prosperity is our common goal

We want our success to be sustainable and long-term, to result from the quality selection and financial backing of those projects that are sound and profitable, development of innovative products and services, and to be based on partnership relations that we maintain with our clients and other stakeholders in the social community. Apart from the financial segment of our business operations, as well as our important role on both domestic and regional financial markets, we will continue to support and stimulate the development of different segments of society through a wide spectrum of our so-called non-financial activities, which are directed toward the well-being of clients and the greater social community. Our financial activities and non-financial business segment, as its active complement, together make and determine our entire strategic approach, at the national, regional and local level. Our common goals are success, satisfaction, and prosperity – of our clients, of our employees and of society in Croatia as a whole.

Christoph Schoefboeck
President of the Management Board

Management Board

CHRISTOPH SCHOEFBOECK, President of the Board
Responsibilities: Risk Management Division, Credit Risk Management Division, Collection and Work-out Division, Corporate Security Division, Human Resources Division, Legal Division, Non-Financial Risk Division (as of 1 February 2018), Corporate Communication Office, Strategic Initiatives Office

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

SLAĐANA JAGAR, Member of the Board
Responsibilities: Accounting and Controlling Division, Asset and Liability Management Division, Internal Audit Division, Economic Research Office and, Group Tax Office

MARTIN HORNIG, Member of the Board
Responsibilities: Processing Division, IT and Organisation Division, Project Portfolio Management Office, IT Strategy, Architecture & Governance Office, Property and Cash Management Division

ZDENKO MATAK, Member of the Board
Responsibilities: Retail Division, Retail Business Development Division (as of 1 January 2018), Direct Channels Division, Marketing Division, Digital Transformation Team

Business results of Erste&Steiermärkische Bank d.d. and its subsidiaries in 2018

I. Macroeconomic indicators

GDP recovery kept stable trace in recent years, with economic growth staying on tracks also throughout 2018, and largely remained in 2.5-3% band. However, latest available data for 4Q 2018 growth brought certain deceleration to 2.3% y/y, while wrapping up average 2018 figure at 2.6% y/y (vs. 2.9% in 2017). Detailed structure brought no major surprises, confirming importance of domestic demand support on both private consumption and investments side, while net exports role gradually deteriorated. As far as 2019 is concerned, outlook gets more demanding, mostly owing to headwinds coming from uncertainty related to external demand. Domestic demand should keep steady footprint, with private consumption maintaining supportive tone, while investments should bring some acceleration (vs. 2018) mostly owing to anticipated stronger EU funded investments. However, exports profile gets more demanding, owing to growth slowdown of main trading partners, and additionally strong base in tourism. Bottom line, we revised our call for 2019 downwards by 0.3pp to 2.3%, mostly accounting for increased uncertainty regarding the exports outlook.

External position continues to improve, with current account trends remain supportive as cumulative surplus currently moves in the region around 3% of GDP mark (on 4Q trailing basis). Near term should deliver steady developments, and in the mid-run seeing CA balance remaining in green despite GDP growth being more reliant on domestic demand. Furthermore, external position should get additional support from declining foreign debt stock, with figure breaking below 80% of GDP mark in 2018.

Favorable economic trends continue to positively feed into labor market developments, with unemployment rate trending on average 2.6pp lower on annual basis during 2018 (registered unemployment), while employment levels also kept steady recovery profile. Following strong reduction in average unemployment rate in 2017 (ILO methodology), we expect even stronger performance in 2018, with average figure expected to move below 9% level vs. 11.3% in 2017. However, such strong developments are also result of pronounced migration flows, which affected unemployment levels. Wage performance also kept favorable pattern, with both nominal and real wages growth accelerating modestly and gross wages growing almost 5% in 2018.

Besides more pronounced inflationary pressures in the 1H of 2018, CPI trajectory kept overall stable developments throughout the year, resulting in average CPI landing at 1.5% - higher figure vs. 1.1% y/y in 2017, mostly owing to higher energy prices. As far as 2019 outlook is concerned, we continue to see demand-side pressures as contained, while supply side remains mostly sensitive to energy prices. Taking into account a lower VAT rate for certain (mostly food) items and benign energy prices outlook, we anticipate that average inflation would slow down to around 1% region in 2019. Comfortable inflation trajectory and steady exchange rate outlook would continue to favor ongoing lax monetary policy stance.

For the most part of 2018, exchange rate developments were in line with expectations, as gradual appreciation trend was backed by improving macroeconomic factors, along with the usual seasonal factors. Average exchange rate EUR/HRK thus moved closer to 7.40 posting approx. 0.6% gain and confirming the pattern started since 2014. Prevailing appreciation pressures shaped CNB actions on the market, as CNB has been especially active in December buying in total close to EUR 1.1bn (EUR 1.8bn in total in 2018).. Outlook suggests exchange rate being predominantly in the 7.30-7.45 band, with most likely more smoothened seasonal pattern, while prevailing appreciation trend should continue, owing to fundamental factors.

I. Macroeconomic indicators (continued)

Following 2017 budget surplus of 0.9% of GDP and additional drop in the public debt trajectory, fiscal developments remained on encouraging track, with 2018 expect to bring another, albeit modest, budget surplus (despite the one-off triggered by shipyard-related guarantees) and continued reduction of public debt towards 70% of GDP. 2019 budget envisages almost balanced budget, thus comfortably meets EC debt reduction rule, while further supporting ERM II membership aspirations. Improved outlook continued to positively reflect on the rating profile as both Fitch and S&P upgraded the outlook to 'positive' in 2H18, hence further increasing the likelihood that Croatia would receive an upgrade to IGR in 2019

	2012	2013	2014	2015	2016	2017	2018 (f)1
Nominal GDP (HRK. billion)	330.8	331.8	331.6	339.6	351.3	365.6	381.8
Nominal GDP (EUR. billion)	44.0	43.8	43.5	44.6	46.7	49.0	51.5
GDP per capita (in thousand EUR)	10.2	10.2	10.1	10.4	10.8	11.4	12.0
Real GDP (growth y/y. %)	(2.3)	(0.5)	(0.1)	2.4	3.5	2.9	2.6
CPI (y/y. average %)	3.4	2.2	(0.2)	(0.5)	(1.1)	1.1	1.5
Current account balance (EUR. billion)	(0.1)	0.4	0.9	2.0	1.2	2.0	1.3
Current account balance (% of GDP)	(0.1)	0.9	2.0	4.5	2.6	4.0	2.7
Foreign debt (EUR. billion)	45.3	45.8	46.4	45.4	41.7	40.1	38.7
Foreign debt to GDP (%)	102.9	104.6	106.8	101.7	89.3	81.8	75.1
Loc. Curr./EUR year-end	7.5	7.6	7.6	7.6	7.5	7.5	7.4
Loc. Curr./EUR average	7.5	7.6	7.7	7.6	7.6	7.5	7.4
Unemployment (%. ILO definition)	15.9	17.3	17.3	16.3	13.1	11.3	8.8

[1] forecast

Source: CBS, CNB, Erste&Steiermärkische Bank d.d.

II. Erste Bank's lending operations in 2018

Erste bank’s total loans to customers on 31 December 2018 amounted to HRK 42.5 billion, which is a 0.07% increase compared to the end of 2017, when they amounted to HRK 39.6 billion. According to the Croatian National Bank’s statistics from the end of December 2018, Erste bank’s market share in total loans amounted to 16.14%, which is a 0.35 percentage point increase compared to the end of 2017.

After the lending market recovery in 2017, the positive trend continued in the past year and a retail loan growth was recorded on the market level, which was most pronounced in the group of cash loans. Total portfolio of the Bank’s gross retail loans amounted to HRK 17.76 billion on 31 December 2018, which is an increase of HRK 1.29 billion compared to the previous year, and it is primarily the result of the large growth in new loan disbursement in 2018. According to the data of 30 November 2018, the Bank’s market share in retail loans was increased by 0.39 percentage points compared to the end of 2017 and amounted to 14.02%.

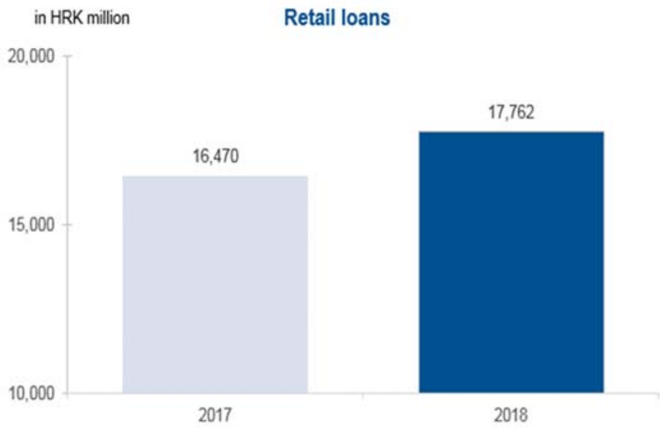

Chart 1: Retail Loans (Loans and advances to customers)

In 2018 Erste bank kept its intense focus on SME division, as well as on the support of high quality projects that drive the development of real economy and increase of employment in that segment. Positive economic trends and macroeconomic indicators from 2017 in general continued in 2018. Tourism and trade continued to be the leading activities in revenue generation, with a strong impact on other domestic sectors.

In the part of lending with corporate segment, the Bank recorded an increase in the volume compared to the previous year, and managed to increase its market share from 17.68% (31 December 2017) to 18% (30 November 2018). In the corporate (non-financial companies) segment, the Bank reported an even bigger growth from 16.68% (31 December 2017) to 18.44% (30 November 2018). This way the Bank kept the second position in the SME sector.

Total gross loan portfolio of the corporate division in 2018 recorded an increase of HRK 1.63 billion and amounted to HRK 24.78 billion on 31 December 2018.

III. Erste Bank's lending operations in 2018 (continued)

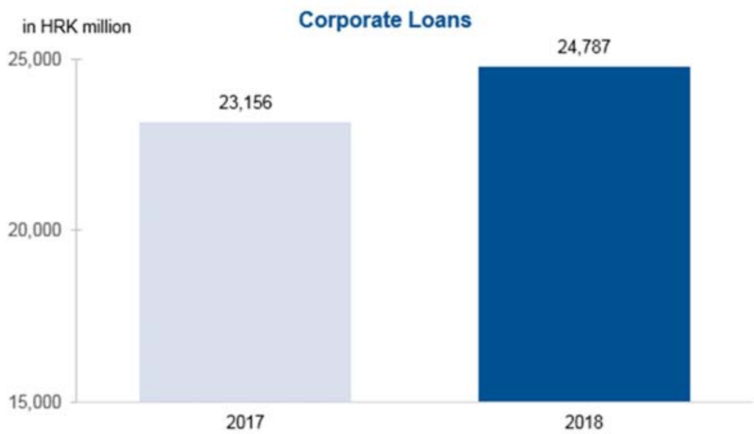

Chart 2: Corporate Loans (Loans and advances to customers)

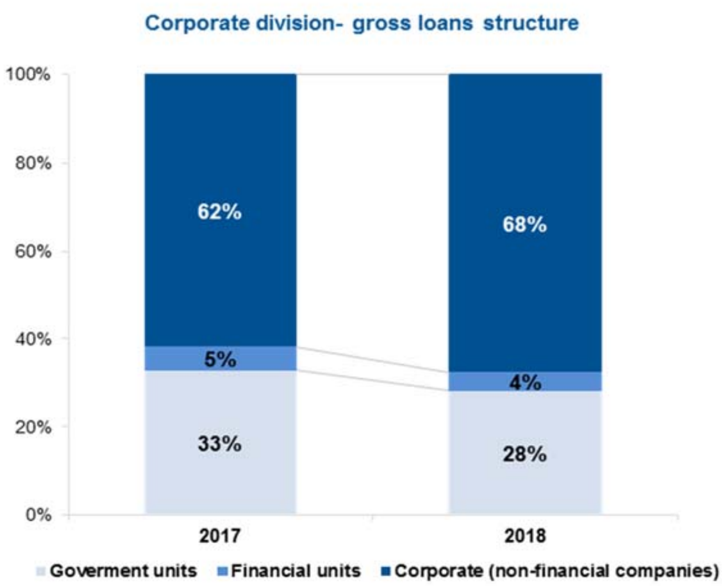

Chart 3: Corporate division – gross loans structure

III. Deposits in 2018

Total deposits at the end of 2018 amounted to HRK 47 billion, which is 11% more than at the end of 2017, when they amounted to HRK 42.3 billion.

The retail deposit market continued its growth in 2018, as well, despite the significant decrease of term deposits with the continuing trend of decreasing interest rates, while demand deposit market grew by double digit percentage.

Total retail deposits on 31 December 2018 amounted to HRK 30.51 billion and recorded a growth of HRK 2.65 billion, with strong demand deposit growth. According to the data for 30 November 2018, retail deposit market share was increased by 0.80 percentage points compared to the end of 2017 and amounts to 14.51%. This is the result of achieved growth bigger than the market growth.

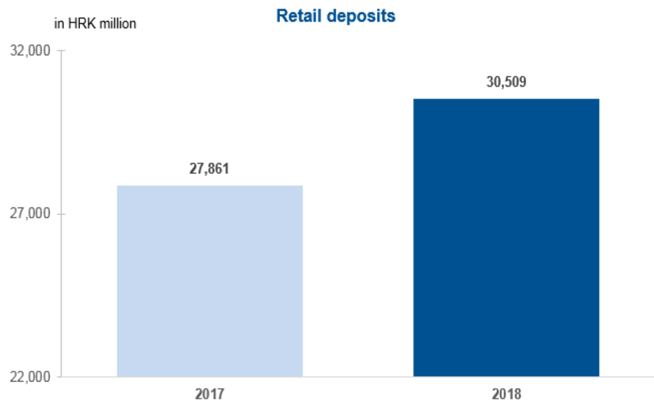

Chart 4: Retail Deposits

In the part of corporate deposits, there is still a trend of growth in volume of all deposit types. In 2018, deposit volume growth in the Bank was significantly faster than the market, which led to an increase in market share. Total corporate deposits on 31 December 2018 amounted to HRK 16.47 billion, recording an increase of 14.05% compared to 31 December 2017, when they amounted to HRK 14.44 billion. The biggest contribution to this growth comes from demand deposits, which recorded an increase of 34.71% compared to the previous year. The total market share of the Bank in corporate deposits recorded a growth from 13.42% (31 December 2017) to 15.12% (30 November 2018). The total deposit market in that segment grew by 7.01%, while the Bank's deposits grew by 20.58%.

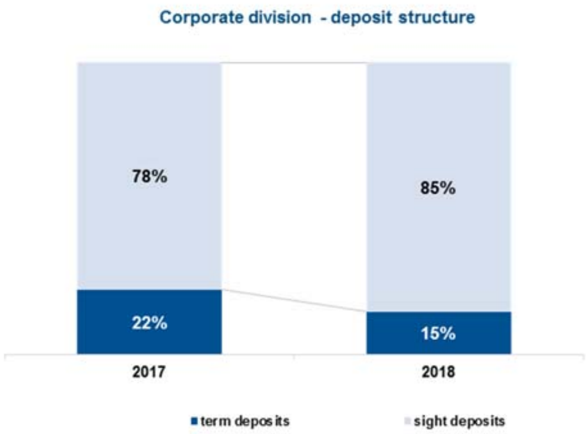

Chart 5: Deposit structure – corporate division

IV. Erste Bank's Retail and Corporate products in 2018

Retail

Product and service management activities during the past year were to a great extent characterised by the adaptation to changes in the environment, as well as in customer expectations. Customer behaviour and habit changes, technological revolution and the regulatory framework continuously require a change of the existing business model and the role of branches as the distribution channel for products and services of the Bank and partners. After the preparational activities, the branch transformation project was launched in 2018. This pertains to branches with a new visual identity and new way of working focussed on an advisory role of employees and a unique customer experience. In 2018, all four branch offices were renovated and in the coming years the same concept is planned to be continue. Furthermore, with the goal of modernization and simplification of the business management, nearly entire business network was equipped with digital posters and digital registries with general terms and conditions in 2018.

In line with the strategic business determinants, activities focused on digitalisation of business continued during last year. In mid-December, an innovative mobile app Keks Pay, which enables sending and receiving of money without any fees, was launched. This is the first banking solution on the Croatian market which is intended for all interested customers, regardless of the bank in which they have accounts. The primary goal of the app is to facilitate everyday situations, such as sending of money to accounts of friends and family or group collecting of money for diverse occasions. In the first month since the launch, Keks Pay gathered around 15,000 customers, 65% of which are not clients of Erste bank. The app is a result of the work of Erste bank's Digital Transformation Team, which was founded for the purpose of developing innovative solutions and business models.

In the retail loan segment, along with the already existing possibility of agreeing loans with variable interest rate in Kuna linked to the National Reference Rate (NRR), the same was also made possible for loans with the euro currency clause. In addition, the Bank participated in the state-subsidised programme for financing the purchase of real estate, or house building, for which the Government of the Republic of Croatia approved subsidies of half of the instalments or annuities for the first 5 years of repayment. Through this programme, the Bank disbursed around 470 loans, in the amount of somewhat less than HRK 250 million.

Activities which are part of the “Step by Step” social banking initiative, launched by international Erste Group, which is implemented in Croatia, as well, were intensified in 2018. As part of the Entrepreneurship Starter, which is intended for persons who think about self-employment and want to enter the entrepreneurial world, or entrepreneurs-beginners who have launched their own business in the past two years, a total of 403 applications were received in 2018. More than 250 candidates were educated and 42 entrepreneurs were financed and in this way 73 new jobs were created. Regarding the non-profit organization financing programme, a total of 5 organizations were included. As a part of non-financial support for non-profit organizations, mentors and the Bank employees held trainings involving 88 participants. In addition, on the Bank's altered website, all interested persons can find trainings and business tools, and a special programme “Social Anker for Non-Profit Organizations” was introduced. In cooperation with the EIF Microfinance & Social Entrepreneurship, two portfolio guarantees were introduced, cooperation with Erste Foundation and the EFSE (European Fund for Southeast Europe) and Finance in Motion was continued, and numerous activities for entrepreneurs-beginners were carried out in cooperation with the Zagreb Innovation Centre (Zicer) and Plavi ured in Zagreb.

Corporate entities

Along with competitive financing conditions backed by the constant improvement of product and service quality, activities in the corporate segment in 2018 were aimed at intensifying and increasing the quality of sales activities through the creation of individual and innovative solutions for targeted clients and industries. Among other things, clients were given access to more favourable financing conditions through long-term successful cooperation with domestic and international financial institutions.

IV. Erste Bank's Retail and Corporate products in 2018 (continued)

Long-term successful business cooperation with the Croatian Bank for Reconstruction and Development (CBRD) was continued, and CBRD's programmes were some of the most wanted forms of lending in 2018, while the Bank was one of the most active banks when it comes to the use of regular CBRD's loan programmes. Part of the year was dedicated to negotiations on the new financing form – ESIF Growth and Expansion Loans. New General Terms and Conditions for the Insurance Policy for the export preparation loans were agreed and exporters were given support through the respective cooperation through further offer of loans for export preparation with CBRD's insurance policy.

During 2018, funds from the credit line in cooperation with the European Bank for Reconstruction and Development (EBRD) were also fully utilized in the component intended for financing of small and medium-sized enterprises. In the beginning of 2018, in the Trade Facilitation Programme (TFP), intended for financing of preparation of export, import and local distribution, the sum of approved transactions exceeded the agreed limit of EUR 10 million and EBRD approved an increase of the non-binding multicurrency limit to the total amount of EUR 20 million in the second half of the year. Due to the intensive use of the RCA line last year, EBRD awarded Erste bank with the title of "The Most Active Trade Finance Partner Bank in 2017 in Croatia" at the EBRD TFP annual forum in May 2018. At the same time, negotiations on agreeing a new tourism credit line were ongoing in 2018.

The long-term successful business cooperation with the European Investment Bank (EIB) was also continued, and a half of the sum of the credit line was utlised by the end of the year. This credit line provides favourable financing conditions and enables financing of clients' needs at a more attractive interest rates.

Throughout 2018, active business cooperation with HAMAG BICRO was continued. This implies participation in HAMAG BICRO's guarantee programmes, which include various needs of craftsmen and entrepreneurs – small business entities when financing current operations or new projects and investments, providing them with a high quality security instrument.

During 2018, business cooperation with the European Investment Fund (EIF) regarding the implementation of the InnovFin guarantee instrument for micro, small and medium-sized enterprises (SMEs) and small mid-cap companies intensified. This refers to EIF's guarantee for the SME loan portfolio (InnovFin SME Guarantee Facility), which represents the initiative announced by the European Commission and the EIB Group, which has the financial support of the European Union through Horizon 2020 and of the European Fund for Strategic Investments (EFSI) established within the framework of the Investment Plan for Europe. The purpose of EFSI is to support the financing and implementation of production investments in the European Union and to ensure increased availability of financial resources. The purpose and basic advantage of EIF's InnovFin guarantee is financing of innovative entrepreneurs with EIF's unconditional guarantee, with more favourable lending conditions for the client and ensuring competitiveness in the banking market, as well as reducing the risk of default loans and losses due to uncollectibility.

In line with modern banking trends and new regulations, and in order to increase customer service quality and the efficiency of transaction banking, activities in the product and service development of cash management were intensified during 2018. In the Bank's four locations, the Erste Smart Cash – Smart Vault service was introduced. This service enables clients to make domestic cash deposits in self-service zones of branch offices. The device is available to clients 24/7 and funds are immediately available in their accounts.

V. Direct Channels Division

Card business and mobile payments in 2018

During the year, Erste banka increased the total number of debit cards by 1.47%, and by the end of the year it had a total of 841,158. In order to increase the number of issued cards, their activation, and increase the number and volume of POS transactions, 26 promotional activities were organised. This also affected the growth in the number of transactions on POS devices by 24.95% and their volume by 25.47%. The number of delivered cards increased by 12%, while the activation of these cards increased by 5.23 p.p. (percentage points) compared to 2017. The total number of debit cards transactions increases by 19.84%, and total volume by 18.68% compared to 2017.

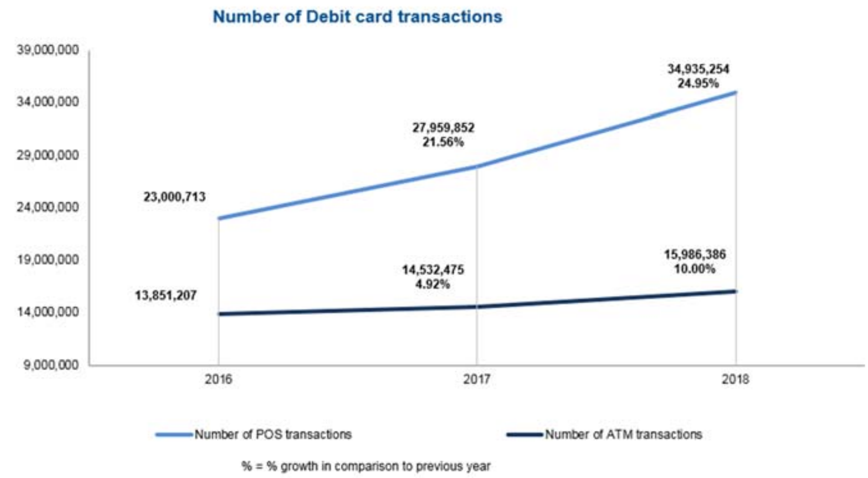

Chart 6: Number of debit card transactions

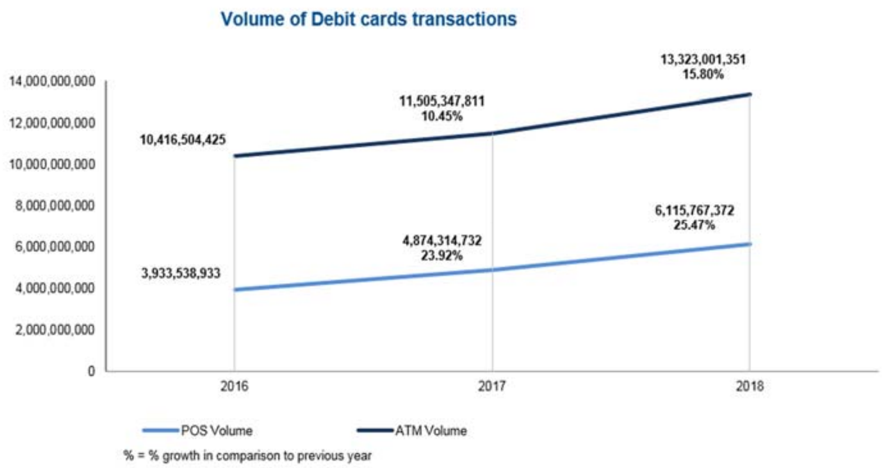

Chart 7: Volume of debit cards transactions

V. Direct Channels Division (continued)

Maestro Plus Service

Erste Maestro Plus, the service that allows cash withdrawal at ATMs with payment in instalments, as well as payment in instalments and/or with a grace period at ECC POS devices, is still recording an increase in the number and volume of transactions. In order to encourage clients to increase the use of the service, six promotional activities were organised and resulted in an increase in the number of transactions on point of sales by 13.39% and volume by 16.65% compared to 2017.

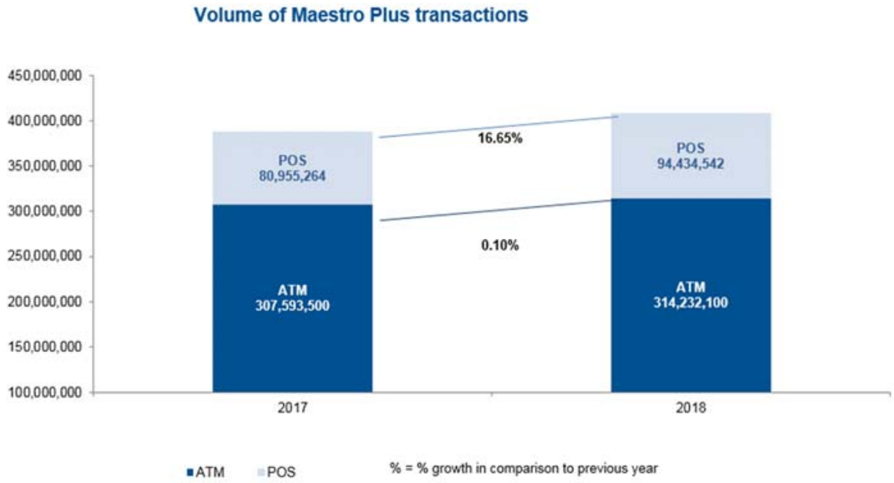

Chart 8: Volume of Maestro Plus transactions

Card and mobile payment acceptance network supervision and management

By 31 December 2018, Erste banka had a total of 749 installed ATMs, 6.24% more than in 2017, with a market share (on 30 September 2018) of 12.72%[1]. During the year, ATMs recorded a simultaneous growth in total turnover and volume compared to 2017, so total turnover grew by 11.57% and the number of transactions by 8.09%. Compared to the previous year, the number of ATMs with the deposit feature was significantly increased in 2018, by as much as 46% to 145. Clients have recognised the convenience of this feature, so the number of deposit transactions grew by 60.25% compared to 2017, while the volume of deposits grew by 56.85%.

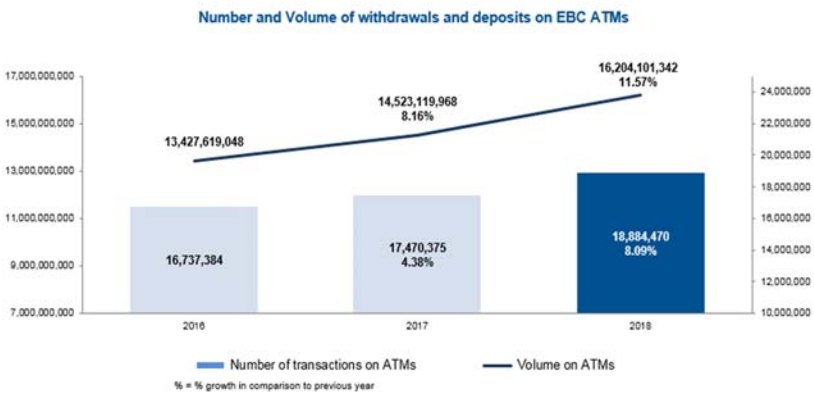

Chart 9: Number and Volume of withdrawals and deposits on EBC ATMs

[1] Source: Croatian Chamber of Economy 3Q2018

V. Direct Channels Division (continued)

Dynamic Currency Conversion (DCC)

The Dynamic Currency Conversion (DCC) service provides users of foreign MasterCard/Maestro/Visa payments cards with accounts in EUR, CHF and USD, GBP, SEK, CZK, PLN, HUF and DKK with the information on the HRK exchange rate against one of the said foreign currencies and the exact amount in the local currency during the withdrawal. In March 2018, the service was extended to six new currencies: the Australian dollar, the Canadian dollar, the Norwegian krone, the Serbian dinar, the Bosnia and Herzegovina convertible mark, the Russian rouble. Compared to 2017, there was a slight increase in the number of transactions by 1.01% and the volume by 0.95%.

News and activities in 2018

The introduced change of the process of opening transaction accounts, within which a card is only ordered if a client states that they want it, has led to a reduction in the number of cards not taken over at the branch offices by 44.7%.
The number was also reduced by activities of card deliveries from branch offices and through system blocking of those cards that had not been delivered in the branch offices for a longer period of time.

A new, safer way to authenticate debit card users was also introduced for payments online at sites that support 3D secure payment service, Mastercard® SecureCode™ and Verified by Visa – the user verifies their identity during the purchase by entering and verifying the one-time SMS password delivered to the mobile device number recorded in the bank.

The issuing of Visa Electron contactless cards started in February, and by 31 December 2018 there were 67,858 issued cards, i.e. 25.73% of the total Visa Electron card portfolio. The project of migration of Mastercard Business Debit (MCBD) to conctactless technology was also completed with the end of the year, which created the conditions for issuing these cards at the beginning of 2019.

The ATM network was systematically modernised and expanded. Thus 126 ATMs were replaced, while 59 were installed in new locations. Contactless transactions were made available on 445 ATMs (59% of the network), and their share in the total number of transactions at Erste's ATMs amounted to 6%. The number of ATMs with a touch monitor was also increased, to 138, and they account for 18% of the network. Their specificity is that the client can request all ATM services by touching the monitor.

Digital banksmiing

Retail business operations

In 2018, Erste Bank saw an increase in the number of digital channel users, as well as transactions and revenues through these channels. During the year, the focus was on increasing the number of active users of digital services and digital sales through Erste mBanking and Erste NetBanking services.

The fact that bank clients have recognised the benefits of using digital services is visible from the increased activation of new users of these services (retail and Small Entrepreneurship Department) by as much as 35%, and the increase in the number of all active users of digital services (retail and Small Entrepreneurship Department) by 22.63%. Additionally, through continuous implementation of activation, acquisition and educational campaigns through Erste NetBanking and Erste mBanking, digital sales was increased by 104.4% compared to 2017.

V. Direct Channels Division (continued)

Due to the convenience and functionality that the service offers, clients especially recognise the Erste mBanking service. The number of active service users increased by 49.05% compared to 2017, i.e. to 122,866, while the total number of mBanking users grew to 166,788, i.e. by 29.60%. The number of Erste NetBanking users increased by 0.68% to 171,873, with a 5.94% decrease in the number of active users. The increase in the number of active users of Erste mBanking also affected the growth in the total number of transactions during 2018, when 5,370,345 transactions were carried out, that is 60.75% more than in 2017. For the first time, a slight decrease in the number of transactions through Erste NetBanking by 4.01% was recorded.

If we view the overall use of the bank's digital services, they are recording significant growth rates. Namely, with regard to 2017, through all services of digital banking (Erste NetBanking, Erste mBanking, Erste SMS, Erste kiosk, Erste NetPay and direct debit), the number of transactions increased by 16.23% and the volume by 32.13%. In total, 11,504,459 transactions were carried out through these channels, with the total volume of HRK 12.8 billion.

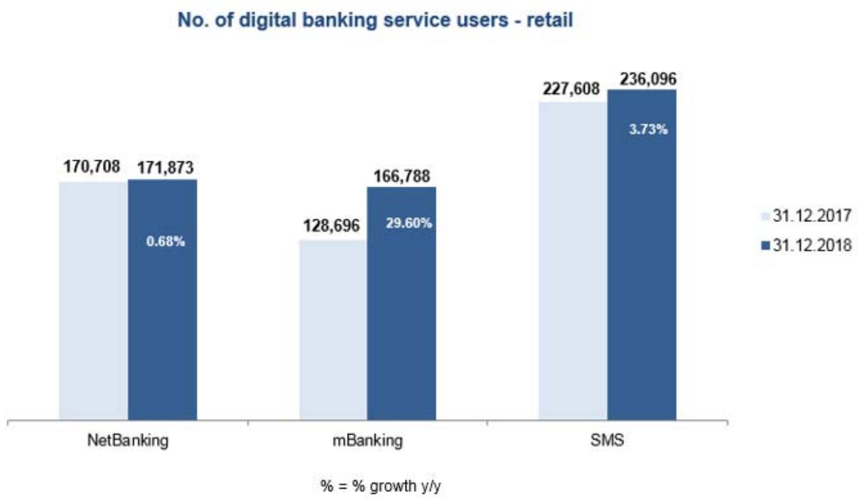

Chart 10: Number of digital banking users - Retail

Digital sale through Erste NetBanking and Erste mBanking services in 2018

In various activation and acquisition campaigns through Erste NetBanking and Erste mBanking services, users were regularly offered products that can be contracted through digital channels. Compared to 2017, a significant increase in the sale of contracted savings by 20.8% (8,021) and investment funds by 10.9% (1,100) was recorded. In addition, a strong growth in the sale of pre-approved loans (with RDB limit) by 262.8% was recorded. Through all bank's channels (branch offices, Erste NetBanking, Erste mBanking), a total of 42,561 cash loans with an RDB limit were approved, in the total amount of HRK 1,039 million, which is 109% more than in 2017, while 27,741 loans in the total amount of HRK 468 million were sold through digital channels. Thus, 65% of these loans were sold precisely through digital channels of the bank, with a share of 45% in the total amount.

V. Direct Channels Division (continued)

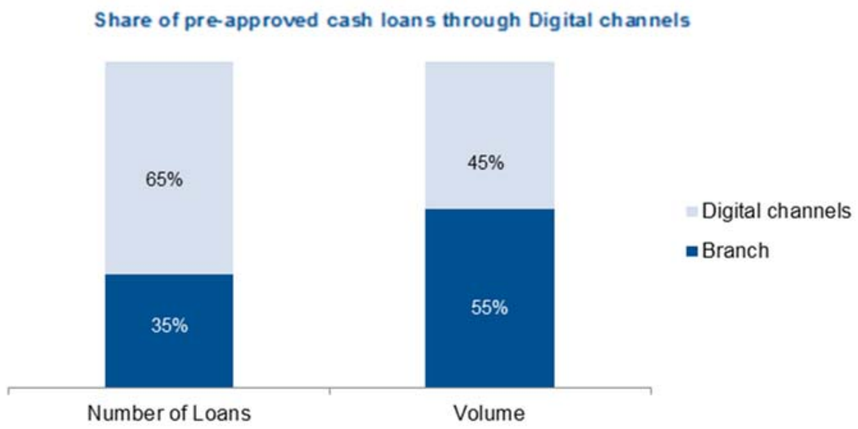

Chart 11: Share of pre-approved cash loans through Digital channels

Corporate banking

In collaboration with colleagues from George Labs, the new Erste NetBanking has been developed for corporate subjects that, in addition to the modern user interface that adapts to all devices, also brings new features. For example, it enables the personalisation of the home page, real-time reference number check, recipient's name by IBAN, pdf. payment certificate, printing of transaction items, management of templates, etc. Erste NetBanking is recording an increase in the number of users (there can be more users in one company) compared to 2017, by 2.43% to 50,682 and the number of corporate clients by 1.98% to 37,831.

In addition, Erste mBanking service is recording a significant increase in the number of users (there can be more users in one business entity) by 58.69% to 12,895, companies by 56.53% to 11,848. Through all digital channel services provided by business entities: Erste NetBanking, Erste mBanking and MultiCash, 24.2 million transactions (including those in HRK and foreign currency) were carried out, which is 20.36% more than in 2017, with a total volume of HRK 215.2 billion – up by 14.90%.

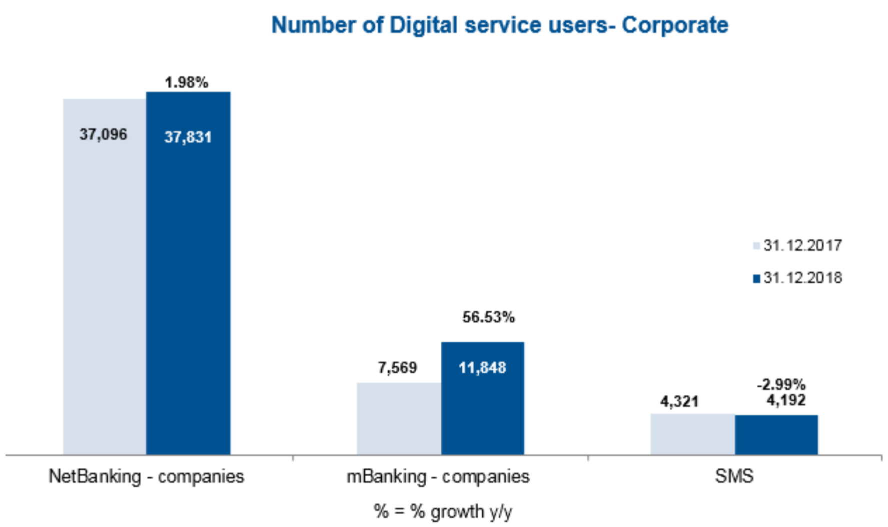

Chart 12: Number of users of Digital banking - Corporate

V. Direct Channels Division (continued)

News and activities and 2018

2018 highlights:

- **Overview of Diners Club card and invoice payment for all credit cards on Erste mBanking** – users of all Erste Card Club cards are able to view the card information, costs, as well as to view and pay invoices for all cards.
- ***mToken management*** – mToken management has been improved, which includes: the possibility to block/unblock mToken, issue new and move existing mToken to a new device, without the client's arrival to the bank's branch office.
- **Overview of the Maestro plus service on mBanking** – enables an overview of spending, dynamics of the repayment of instalments, and the total and available limit.
- **Other news on Erste mBanking** – "Scan and Pay" has been upgraded with the possibility to upload barcode images and partial scanning of a payment slip; the new "Request payment" feature has been introduced to allow users to generate a barcode for their IBAN, send it by SMS or an application such as Viber or WhatsApp, and thus request payment to their account.
- **GDPR** – in accordance with the GDPR regulations, the collection of approvals has been implemented.
- **George project** – *Relase 1.1* has been completed to enable overview of account and account transactions, as well as the basic overview of payment orders, and the activities for *Release 1.2* have been started. Additionally, the *Federated Login* system has been established that allows *Single Sign-on* between George and NetBanking and potentially between some other applications that might appear as a Payment Service Directive 2 Third Party Provider (PSD2 TPP).
- **Redesign of NetBanking for corporate clients**: MIFID – within the adjustment to the regulation, the conclusion of contracts on the transfer and receipt of orders has been enabled, and the trade of investment funds for corporate users has been redesigned. At the same time, the search of account transactions and transfer to an Excel file has been improved, which enables users to easily find transaction items and further transaction analyses. The downloading of interest statements and open item statements has been introduced; within GDPR, approvals have been collected from craftsmen; loan request has been redesigned.
- **PSD2 Programme** – PSD2 Payments has been completed and implemented; preparation and analysis for PSD2 API&Security has been carried out; Digital Identity – preparation for the introduction of a digital list in cloud created.
- **SEPA Direct Debit** – five existing payment recipients transferred to *SEPA Direct Debit* through two migration cycles.

Client activation

During the year, the focus was on the acquisition and activation of clients of digital services and employee training. In order to activate clients, 67 campaigns (prize games, trainings, activation/acquisition campaigns) were organised, seven digital corners were opened, which increased their number to 49. Also, training and activation of employees through educational meetings "Digital Coffee" was continued, as well as the rewarding of branches with the largest share of active clients of digital channels.

At the end of 2018, Erste banka's digital services were used by 282,855 citizens and clients of the Small Entrepreneurship Directorate, which was up by 13% compared to the previous year, of which 196,211 clients actively used the services during the year (they logged in to the digital services at least once in the last month), i.e. 69%, which is 5% more active clients than in 2017. At the same time, the number of newly activated citizens and clients of the Small Entrepreneurship Department was increased by 35% to 36,204.

V. Direct Channels Division (continued)

Fraud prevention activities on digital channels

The tools for the security of digital channels (DetACT and Websafe) were upgraded and additionally optimised during 2018. For the purpose of faster and more efficient exchange of key information, they were also implemented and integrated with the system of the Fraud Prevention Service (SplunkFM). The transaction authorisation method has also been improved, which additionally raised the level of security of payment through digital channels.

Contact Centre

Through the Contact Centre, clients contacted the bank a total of 856,596 times, i.e. 2% more than in 2017, out of which 567,231 requests were resolved by the Contact centre's agents, i.e. 1% more than the year earlier. Out of this number, 88% of the requests were resolved by agents over the telephone, while the rest regards communication by e-mail, chat, and Facebook. The clients also addressed the bank through voice machine (IVR) more, where 289,365 entries were recorded, i.e. 5% more than the year earlier.

Activities in 2018

In order to increase client satisfaction, during the year the Contact Centre started providing 0-24 support to card users for the unblocking of debit cards on the 3D system and set up the main channel for the support to users of the new Keks Pay application. In the first half of the year, agents continually called bank clients to inform them about the need for updating their master data.

For this purpose, 103,400 clients were processed, and contact was established with 50% of the clients. In order to further improve the communication channels, a tender procedure was launched and a supplier was selected for the introduction of the channels, such as: Viber, WhatsApp and Facebook Messenger. As a prerequisite for the introduction of these channels, a process of upgrading the existing Cisco IPCC solution was initiated.

Sales in Contact Centre

In line with the new business guidelines, four new sales areas have been introduced: client activation, active digital channels, offers to clients by the bank's agents, and the number of accepted bids. The total number of newly contracted products through the Contact Centre (current accounts, digital channels, pre-approved loans, credit cards, voluntary pension funds) recorded a growth of 15.11% compared to 2017, which was affected by the significant growth of pre-approved loans by 54.81% Most of the sales activities were carried out during the sales campaigns, which included 94 thousand clients. The campaigns were directed to the sale of current accounts, digital services, pre-approved loans and voluntary pension funds, and the activation of inactive current accounts.

Quality of Contact Centre service

In 2018, the results of *Customer experience* research for the Contact Centre still recorded results above the expectations in all channels, except e-mails. Also, the service quality index, which represents the weighted average of two indicators: the result of the research of the quality of work of the Contact Centre through mystery shopping and the result of the customer experience research recorded values above expectations, as well as service of personal advisers (98.05%), chat (95.35%) and telephone (95.14%), while e-mail showed slightly lower quality (85.93%), especially in customer satisfaction research.

V. Direct Channels Division (continued)

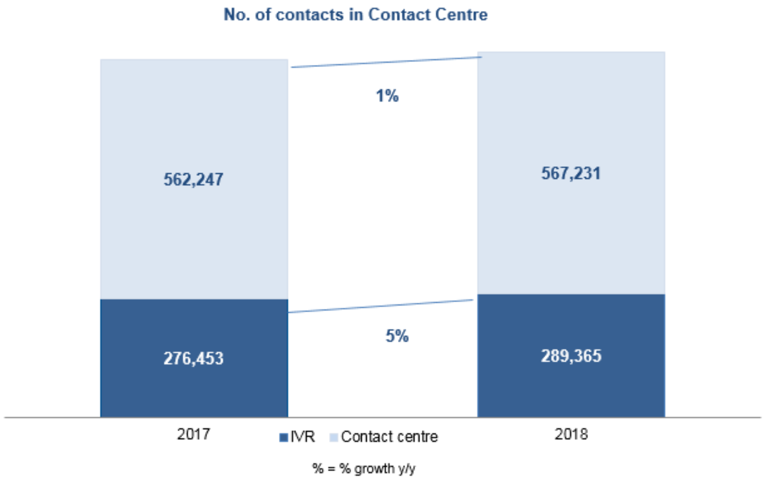

Chart 13: Number of contacts handled by Contact Centre

VI. Financial markets

Overview

The domestic market boasts a high level of liquidity and low volatility across nearly all product categories. Croatian National Bank (CNB) continues to implement an expansive monetary policy, which has resulted in historically low interest rates on the interbank market. The currency exchange rate, as the main anchor of the monetary policy, is also under the control of the central bank which intervened on several occasions, preventing further appreciation of the domestic currency, while yields on government bonds were slightly lower compared to the start of the year.

Money Market

We described 2017 as the calmest year on the money market since trading began, but 2018 went even further in that regard. 2018 was characterized by an extremely high kuna liquidity of the system and consequently non-liquid markets. The average daily excess liquidity in the system was HRK 24.9 billion, nearly HRK 10 billion more than in 2017. In late December we saw the highest daily excess liquidity ever recorded in one day, HRK 34.7 billion.

The most traded maturities on the interbank market were the 1-week maturities with the average rate of 0.11%. The ZIBOR O/N range was just 0.13% between the highest rate in July which amounted to 0.39% and the lowest rate in early April which amounted to 0.26%.

Last year, CNB held just one structural repo auction, auctioning HRK 1.397 billion at the interest rate of 1.2% for a period of 5 years. Total amount CNB auctioned to domestic banks through structural repo auctions amounted to HRK 2.015 billion at the end of 2018. In 2018, CNB also offered regular reverse repo auctions, but due to high liquidity in the system, the banks showed no interest for HRK with a 1-week maturity and a 0.3% rate on any occasion.

Among the more significant events in 2018, we should mention that the Federal Reserve District (FED) raised the reference rate three times during the year, from 1.5% to 2.5%.

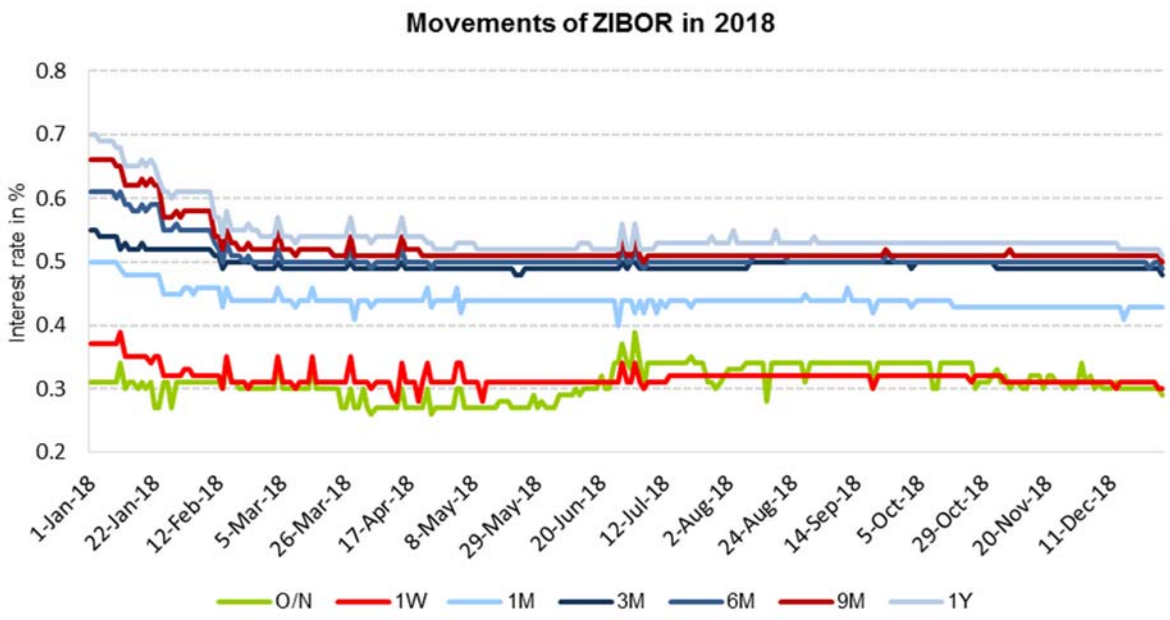

Chart 14: Movement of ZIBOR (source: Bank's internal data)

VI. Financial Markets (continued)

Yields on treasury bills continued their downward trend in 2018. Thus the yield on 364-day HRK treasury bills declined by 11 pp compared to the previous year, to 0.09% for the last issue of 2018. The yield on the 181-day HRK treasury bills declined by 19 pp to 0.06%, but they were issued on only three occasions in 2018 with the last occasion being in October. The yield on 364-day currency treasury bills fell by 4 pp to 0.00% for the last issue of 2018.
The aggregated state debt increased by around HRK 1.4 billion via treasury bill auctions last year.

FX market

In early 2018, CNB intervened on the currency market, purchasing EUR 405 million at the average exchange rate of HRK 7.4535 per one euro. February and March saw the exchange rate stabilize between 7.4300 and 7.4500. CNB was dissatisfied with the EUR/HRK exchange rate dropping below 7.400 which resulted in an intervention mid-May when the central bank purchased EUR 320 million at the average exchange rate of 7.3980.

The arrival of Easter usually marks the beginning of the tourism season, which is reflected in the increased inflow of foreign currency and results in a depreciation pressure on the EUR/HRK exchange rate. In the said period, the EUR/HRK exchange rate fell from 7.4300 to 7.3900, with an occasional mild correction.

During the peak of the tourism season, the EUR/HRK exchange rate ranged from 7.3900 to 7.4200. After the summer season, the kuna weakened slightly to 7.4400.

Autumn and winter were marked by a constant pressure on the appreciation of the kuna. The appreciation pressure on the exchange rate is tied to positive macroeconomic trends in the balance of payments due to the growth of exports and stronger absorption of EU funds. Because of that, CNB was forced to purchase euros from commercial banks on three occasions. In total, CNB purchased EUR 1.08 billion during December.

The USD/HRK exchange rate ranged from 5.95 in early January to 6.52 at the end of the year.

Debt securities market

Domestic capital market, including the stock and debt markets, continues to fail to achieve its full potential. Activities of debt issuers via public offerings are frequently limited to refinancing debt coming due, but there has been a trend of rising interest in new issues on the debt market and particularly the equity market.
In 2018, the Republic of Croatia issued two bonds on the domestic debt market, with a total nominal amount of HRK 10.5 billion. The Bank was involved as the leading arranger for said government bond issues during 2018.
The Bank issued 5-year unsecured HRK bonds with a nominal amount of HRK 300 million, in accordance with its strategy of diversifying financing sources, simultaneously continuing to contribute to the development of the capital market in the Republic of Croatia. The bonds were issued in denominations of HRK 1 million, which was a novelty on the domestic market which was previously only familiar with the denominations of HRK 1.
As a result of the bond transactions it arranged, the Bank is ranked first among the leading arrangers of debt securities in the Republic of Croatia with a 27% market share in 2018 (source: Bloomberg), which confirms the Bank's strategic commitment to supporting the development of the capital market despite the still challenging conditions.
In addition to the above mentioned transactions on the domestic capital market, the Bank was also involved in the issuing of commercial securities of SC Visnjik d.o.o. as an independent arranger.

VI. Financial Markets (continued)

Similarly as in 2017, the beginning of 2018 was marked by a positive sentiment accompanied by a higher turnover, primarily as a result of Adris Grupa's one-time purchase of treasury shares, in addition to the growth of market capitalisation and index value. Unfortunately, this trend did not continue, primarily due to the reinstating of the trading suspension on all shares owned by Agrokor (Ledo, Jamnica, Zvijezda etc.), and the remainder of the year was characterized by a fluctuating investor sentiment.

The CROBEX share index ended the year in the red with -5.10% and 1,749 points while total turnover fell by 34.8% on a trade volume of just over HRK 2.1 billion. Valamar Riviera was again the most traded share, with a trade volume of HRK 273.1 million.

Taking into account that 2018 was an extremely challenging year on nearly all global markets, with most of them ending the year in the red while some major European indices even recorded a double-digit annual loss, the domestic equity market can nevertheless be relatively satisfied with its performance in the past year.

In early October, Zagreb Stock Exchange has shut down the CE Enter market, the alternative market that was established in May 2016 as the successor to the multilateral platform (MTP) which the Stock Exchange had operated since 2009.

Custody

The market value of assets under custody in 2018 grew by 2,43% compared to 2017, amounting to HRK 10.11 billion as of 31 December 2018. The number of clients' financial instrument transactions shrunk by 7% compared to 2017.

VII. Risk management

Risk management is a set of procedures and methods established for identifying, measuring, assessing, controlling and monitoring of risks, 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 the possibility that the Bank's credit claims and related fees and interest will not be repaid in the foreseen amount and timeframe. 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 the change in the movements of the market prices, including changes in 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 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. This 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 a strong impact in terms of reputation).
Liquidity risk is a risk of loss stemming from an existing or expected inability of a 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.

VIII. Erste Bank AD Podgorica

In 2018, Erste Bank AD Podgorica (EBM) continued delivering good performance, attracting new clients and developing relations with existing ones, which resulted in a pre-tax profit of EUR 10.25 million, up by 16% compared to the previous year. Profit after tax amounted to a record EUR 9.17 million, with the return on equity as high as 12.8% and the return on assets of 1.8%. Total operating income amounted to EUR 26.5 million, up by 11% compared to 2017.

Net interest income amounted to EUR 21.2 million and was 8% higher compared to the previous reporting period. Net interest margin decreased from 5.3% at the end of 2017 to 5.1% at the end of 2018.

Net fees and commissions income increased by 22.76% and amounted to EUR 4.7 million. Higher net and commissions income is in line with EBM's focus on increasing non-interest income as well as increasing the number of its active clients and services offered to clients.

Risk costs amounted to EUR 339 thousand. Credit risk cost amounted to 0.06% and was lower compared to the end of 2017 when it was negative and amounted to -0.03%. NPL coverage was high, amounting to 105% at the end of 2018, down from 112% at the end of 2017. This was the result of efforts invested in the control of collection, as well as EBM's conservative risk appetite, adapted to the demanding market conditions.

Operating costs stood at EUR 16 million, up by 2.5% compared to the previous year, while cost/income ratio declined from 65.2% to 60.4% which, together with the growth of operating results, represents the biggest accomplishment in 2018.

At the end of the year, total assets amounted to EUR 520.34 million and were 6% higher compared to 2017. Net loans to customers amounted to EUR 321.7 million and were 7% higher compared to 2017; of that, retail loans accounted for EUR 195.4 million while corporate loans accounted for EUR 126.3 million.

In the retail sector, EBM granted EUR 77.79 million in loans through 12,918 loan arrangements. Cash loans accounted for the highest share of total loans (70.18%), followed by housing loans (19.85%) and mortgage and home improvement loans (3.30%). Credit lines grew by 45.96% compared to 2017. In line with EBM's strategy, clients remained focused on standard retail products and core retail products accounted for 93.33% of all loans in 2018. The market share of the retail loan portfolio stood at 16.30%, down by 0.18 pp compared to the previous year.

In the SME/corporate segment, EBM recorded a gross loan portfolio growth of EUR 3.12 million (2.4%) compared to year-end 2017. Net loans to private companies grew by EUR 11.98 million (12.86%), as a result of which market share in this segment grew from 9.86% to 10.47%, representing a 20% net market growth.

At the end of 2018, Erste Bank AD Podgorica operated a network of 17 branch offices across Montenegro and was providing services to more than 97 thousand clients.

IX. Erste Card Club d.o.o.

The activities in 2018 in general

Erste Card Club Group (hereinafter: ECC Group), consisting 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), achieved positive business results. Positive net and operating results were also achieved by Diners Club BH d.o.o. (hereinafter: DCBH), whose results are not currently included in the consolidation of the financial statements.

With the aim of significantly improving the end-user experience, enhancing overall business operations and significantly increasing the market share, ECC started the complete digitalisation of business processes. As a result, the first fully digitalised card approval process on the Croatian market was introduced, which significantly simplified the issuing process and reduced the number of days needed to validate the card. In addition, the ECC Mobile application has been introduced, which provides clients with features such as managing monthly instalments.

The offer of the products has also been extended by introducing the Diners Club RateToGo card, which automatically divides the costs incurred at sales outlets and of withdrawn cash to the agreed number of instalments (6-36), the same as the costs of independent revolving cards: Mastercard, Visa and Visa Croatia Airlines. Also, ECC continued to implement time-limited offers of card sales, as well as, in cooperation with partner sales outlets, discount sales every other Tuesday named “D-Tuesday”.

In order to comply with the regulator, ECC has implemented the requirements stipulated by the Electronic Money Act and the Payment System Act, for which it received an approval decision from the Croatian National Bank. Also, activities regulated by the General Data Protection Regulation (GDPR) have been implemented.

Operational review for the year 2018

Credit cards

The total number of ECC credit cards[2] on 31 December 2018 is 382,667 (DC 313,959; VISA 34,190; MC 34,518), which is 17,493 cards or 4.79% more than in 2017. In 2018, there is a trend of strong growth in sales, which reached 47,943 new credit cards (2017: 33,279). As a result of positive trends, the market share of the number of credit cards increased – on 30 September 2018 it amounted to 21.94%[3], which is 104 bps higher than in 2017.

The total number of EC SLO credit cards on 31 December 2018 was 70,862, with an increase of 6.7% compared to the previous year, with a new sale of 8,637 cards (2017: 7,623) and more intense sales activities through digital marketing campaigns. The market share on 30 September 2018 amounted to 8.75%[4], up by 29 bps compared to 2017.

The total number of DC MAK credit cards on 31 December 2018 amounted to 15,637, with an increase of 1.84% compared to 2017. The market share on 30 September 2018 was 4.15%[5], an increase of 5 bps compared to 2017.

Total number of DCBH credit cards on 31 December 2018 amounts to 10,514, with an increase of 31.4% compared to 2017. The market share on 31 December 2017 was 2.17%[6], which is an increase by 65 bps compared to 2016.

2 The number of credit cards does not include loyalty, e card and prepaid.
3 Croatian Chamber of Economy, latest data available on 30 September 2018
4 Bank of Slovenia, Visa Slovenia and internal assessments, latest dana available on 30 September 2018
5 National Bank of Macedonia, latest data available on 30 September 2018
6 Central Bank of Bosnia and Herzegovina, latest data available on 31 December 2017

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

Card transactions turnover in 2018

The total turnover of cards issued by ECC in 2018 was increased by 3.4% compared to 2017 and amounted to HRK 7,138 million, with a market share of 23.56%[7], which is 6 bps less than in the 3rd quarter of 2017. The total ECC acquiring turnover increased by 13.2% with a market share of 14.5%[8], which is 3 bps less than in the third quarter of 2017. The growth of turnover was affected by an increase in the portfolio of interest-free instalments, revolving and acquiring turnover. The total number of ECC transactions in 2018 exceeded 47 million, with an increase of 11.1% compared to 2017. In 2018, the total turnover of EC SLO amounted to EUR 167 million, with a significant increase of 10.1% compared to the previous year, while the total number of transactions in 2018 was 2.3 million, with an increase of 6.8% compared to 2017.

The market share of the turnover of issued cards on 30 September 2018 was 5.72%[9], which is 2 bps more than in third quarter 2017.

In 2018, total turnover of DC MAK in the amount of HRK 27 million was achieved, with a decrease of 1.4% compared to the previous year, while the total number of transactions in 2018 amounted to 0.5 million, with an increase of 2.5% compared to 2017. A total turnover of DCBH in the amount of EUR 8.5 million was recorded in 2018, with a significant growth of 11.4% compared to the previous year, while the total number of transactions in 2018 was 0.2 million, with an increase of 10.3% compared to 2017.

Operating and financial review 2018

The net profit at the consolidated level amounts to HRK 189 million, which is 131.8% more than in 2017. The above-average net profit is influenced by positive provisions for risks in the amount of HRK 64.7 million, mainly due to the income from the sale of a part of NPL in the amount of HRK 36.3 million, reallocation of income from default interests in the amount of HRK 15.4 million, and one-time effect of IFRS 9[10] implementation in the amount of HRK 3.5 million.

The operating result amounts to HRK 150.8 million and is down by 9% compared to 2017. The lower result is a consequence of the one-off effect of the application of IFRS 15[11] from December 2018 and a decline in the cash withdrawal turnover by 5%. Additional pressure is also created by the application of local regulation of interest rate cuts. The overall effect of the application of IFRS 15 regards the income from commissions on purchase in instalments of HRK 20 million, of which HRK 8.7 million is recognised as interest income, while HRK 11.3 million is recognised as deferred income, with the recognition in following years. Under the influence of the Interchange Fee (IF) regulation, there is still pressure of the average trader commission (mainly refers to Visa and Mastercard), which is offset by the growth of the acquiring turnover.

In accordance with the recommendation of Erste Group, ECC conducted the sale of non-performing loans in the total amount of HRK 98 million. This contributed to a decrease in the balance sheet of non-performing loans (NPL), together with efficient billing and stable entry of new NPL, which amounts to 9.6% and is lower than in 2017, when it amounted to 15.1%.

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7 Croatian Chamber of Economy, latest data available on 30 September 2018

8 Ibidem

9 Bank of Slovenia, Visa Slovenia and internal assessments, latest data available on 30 September 2018

10 IFRS 9 International Financial Reporting Standard 9 – Financial instruments; applied since 1 January 2018

11 IFRS 15 International Financial Reporting Standard 15 – Income from contracts with customers

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

The net interest income at the consolidated level amounts to HRK 170 million and is higher by HRK 8.7 million or 2.2% compared to 2017, which is the result of the implementation of IFRS 15. The income side continues to be affected by declining interest rates and the trend of a decline in cash withdrawals. The reduction of interest expense and excess liquidity management turnover were influenced by the repayment of the loans of EGB (Erste Group Bank) in the amount of EUR 5 million and a reduction in the number of repurchase agreements (REPO).

The consolidated net income from fees amounts to HRK 230 million and is down by 3.9% compared to 2017, as a result of the implementation of IFRS 15 in the amount of HRK 20 million. Also, the lower amount of net income from fees was affected by higher IF expenses, as a result of the growth of Visa and Mastercard acquiring turnover. The decrease in average commissions from traders was offset by the increase in turnover in ECC and EC SLO.

The provisions for risks at consolidated level amount to HRK 64.7 million and are decreased by HRK 61.8 million compared to 2017. During 2018, a stable entry of new NPL was recorded, as a result of the effective collection and sale of a share of NPL, and the improvement of the aging structure of bad debts. In addition, the NPL reduction trend from 2015 was continued. The coverage of bad placements with provisions is stable and amounts to 106.7%. The net trading result (NTR) amounts to HRK 6 million, while it amounted to HRK 700 thousand in 2017. The growth of NTR is a result of the positive Foreign Exchange Market (FX) results, operating activities and the positive return of EAM (Erste Asset Management) funds, which have been kept in the profit and loss account since 2018, in line with IFRS 9.

The general administrative costs at the consolidated level amount to HRK 254.8 million, up by 6% compared to 2017.
Other administrative costs are lower by 2.1% due to the following conducted optimisation in business: reduction in the costs of business premises and maintenance after relocation; the cost of collection after the sale of a part of NPL, and the cost of maintaining the EFT POS network. Growth is recorded by the following costs: processing, due to further development following the digital transformation and regulatory requirements, and costs of IT services due to more expensive infrastructure. The cost of depreciation was increased by 30.6% due to the one-time effect of subsequently determined IT assets, relocation to new business premises and investments in business digitization.
Other operating results amount to HRK 12.8 million and is higher due to the cancellation of provisions for the DC MAK dispute.

Balance sheet

The total assets are stable on the consolidated level and amounted to HRK 3,162 million on 31 December 2018, which is 0.3% less than in 2017. The loans and receivables from clients and financial institutions amounted to HRK 2,817 million, which is 3.3% less than in 2017, due to the sale of bad debts in the amount of HRK 98 million and a reduction in the interest rate portfolio. Interest-free repayment recorded a significant growth of 18.7%, while revolving grew by 3.8%. The risk provisions of receivables is lower by 30% compared to 2017, as a result of efficient collection, lower inflow of new provisions and the sale of bad debts, and amounts to HRK 258 million. Due to the repayment of EGB loans amounting to EUR 5 million and lower REPO loans, liabilities to credit institutions are 12% lower than in 2017 and amount to HRK 1,360 million. Compared to 2017, the total capital increased by 20.8% to HRK 1,077 million, while a dividend in the amount of 10% of the profit from 2017 was paid out.

INDICATORS	ACTUAL 2017	ACTUAL 2018	Index
RoE	9.68%	19.14%	198
RoA	2.59%	5.99%	231
Cost Income Ratio	59.19%	62.83%	106
NPL coverage	103.38%	106.69%	103

X. Erste Factoring d.o.o

Erste Factoring posted a negative result at the end of 2018, primarily due to additional value adjustments in the first half of the year, in relation to Agrokor and its related companies as well as suppliers of the Group with recourse obligations.

Despite that, Erste Factoring remained the leader on the factoring market in 2018 as well. According to data from the Croatian Financial Services Supervisory Agency (HANFA), on 30 September 2018 Erste Factoring's share of total assets on the market was 57%, just as the previous year.

Loss after taxes amounted to HRK 98.8 million, while in 2017 the company posted a loss of HRK 371.1 million. The loss is for the most part the result of abovementioned value adjustments. The operating result fell by HRK 18.4 million (-56.8%) compared to the previous year due to lower net interest income (HRK 46.3 million in 2017; HRK 30.8 million in 2018). The HRK 15.5 million lower net interest income (-33.4%) is the result of the interest income decline and the implementation of the Act on Extraordinary Administration Procedure for Companies of Systemic Importance for the Republic of Croatia. In addition, the lower average interest margin (5.08% in 2017; 4.34% in 2018) also contributed to lower net interest income due to market pressures. Compared to 2017, the loan volume was lower at the end of 2018 and loan liabilities at the end of the year amounted to EUR 75 million and HRK 190 million.

Due to developments concerning Agrokor, there has been a clear decline in gross exposure to large clients and corporations, mainly as a result of the collection and write-off of Agrokor's debts. At the same time there has been an increase in demand for factoring from SME clients, as well as an increase in turnover in this segment. The positioning of the SME segment as the dominant one was indeed the key strategic goal of Erste Factoring in 2018. During 2018, particular attention was given to transitioning to the new accounting standard (IFRS 9), with databases and the core system being adjusted and harmonized with the new method of recording and reporting.

Due to the circumstances affecting Agrokor and its related companies, which had a significant impact on the entire factoring market in Croatia, the last two years have been very challenging for Erste Factoring as well. The major part of 2018 was marked by activities related to signing the settlement agreement with Agrokor's creditors. Most receivables have been collected or written off in accordance with the agreement, and the remaining amount is expected to be dealt with next year. Apart from that, the demand for factoring services is still present on the market and Erste Factoring will work on ensuring and improving its current position as a market leader.

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

Operating Overview in 2018

Newly concluded leasing contracts

Erste Leasing concluded 6,952 leasing contracts during 2018 which is an increase of 22.4% compared to year 2017 when it concluded 5,680 contracts. Total value of newly concluded contracts of operating lease on 31 December 2018 amounted to HRK 87 million, which is a decrease of 23.8% compared to the previous year. The total value of newly concluded contracts of financial lease on 31 December 2018 amounted to HRK 1,292 million, which is 25.1% higher than in the year 2017. By the value of newly concluded contracts Erste Leasing holds third place, with a market share of 16.44%[12].

Market share by value of assets

The value of assets as of 31 December 2018 amounted to HRK 2,560 million, which is an increase of 11.2% compared to the previous year. Market share is 13.5%[13], which represents slight growth compared to 2017 (12.7%).

Financial overview in 2018

Net profit in 2018 amounted to HRK 45 million which represents an increase by 41.8% (HRK 13.3 million) compared to 2017, primarily due to the effect of exchange rate movements in 2018 and increase in interest income on finance lease.
Operating result in 2018 amounted to HRK 64.2 million and increased by HRK 20.8 million (48%) compared to 2017. This is the result of positive FX differences (HRK 9.9 million) and increase of financing by finance lease, i.e. growth of net interest income by HRK 9 million. The share of finance lease in the total portfolio continuously grows and increased YoY by 5 percentage points to 87% share in 2018.

Net interest income amounted to HRK 64.2 million achieving a growth of 16.2% compared to year 2017, when it amounted to HRK 55.2 million. Interest income refers mainly to interest from finance lease with the growth of 12.1% compared to the year 2017 (2018: HRK 96.8 million) as a result of an increase in financing volume. In addition, interest expenses increased by 4.8% or HRK 1.5 million due to the increase of funding sources.

Net trading result in 2018 was positive and amounted to HRK 9.9 million, which is an increase by 255.8% in comparison with year 2017 (2017: HRK -6.36 million). A growth is primarily generated from the positive foreign exchange differences, which amounted to HRK 9.3 million in 2018 (2017: HRK -6.4 million). Erste Leasing has two interest rate swaps (IRS) and net change on derivatives amounted to HRK 0.6 million in 2018.

Other administrative expenses amounted to HRK 8.6 million in 2018 which represents an increase of 2.4% compared to 2017. Depreciation and amortization expenses amounted to HRK 97.2 million and decreased by 20.2% compared to 2017, due to the decrease of operating lease in portfolio.

In 2018 Erste Leasing released risk provisions in the amount of HRK 1.04 million which represents a decrease of 117.8% compared to 2017, with NPL coverage of 62.8% in 2018 compared to 62.9% recorded in previous year. NPL recorded a decrease from HRK 70.1 million in 2017 to HRK 68 million in 2018 due to good collection of NPL and write-off.

12 Last available data HANFA, 30 September 2018
13 Ibid

XI. Erste&Steiermärkische S-Leasing d.o.o. (continued)

Assets and liabilities

Total assets of Erste Leasing as of 31 December 2018 amounted to HRK 2,560 million, which is 11.2% increase compared to 2017. Finance lease receivables and other receivables amounted to HRK 2,086 million with a share of 81.5% in total assets, which is an increase of 19% compared to 2017 due to a rise in new finance volume in finance lease. Risk provisions amounted to HRK 42.7 million which represents a decrease of 3.2% compared to 2017 due to good collection of NPL and write-off. Tangible assets mainly relate to assets under operating lease and amounted to HRK 379.6 million with a share of 14.8% in total assets. A decrease of 18.9% has been recorded compared to 2017 mainly because of lower finance volume in operating lease.

Liabilities and Equity

Total liabilities to credit institutions and customers as of 31 December 2018 amounted to HRK 2,072 million with a share of 81% of total liabilities. In comparison to the previous year, it represents an increase of HRK 230.6 million mainly within liabilities to credit institutions (HRK 206.5 million) due to the withdrawal of new credit lines to finance new business. Furthermore, an increase is recorded on the liabilities to customers in the amount of HRK 24 million.
Other financial liabilities amounted to HRK 63.7 million (2.5% of total liabilities) and refer to deposits from customers. It decreased by 30.6% compared to the previous year. Other liabilities amounted to HRK 87 million with a share of 3.4% in total liabilities and have increased (22.4%) compared to 2017. They mainly relate to the advance received from operating lease which amounted to HRK 33.1 million.
Total equity amounted to HRK 337.5 million in 2018, accounted to 13.2% in total liabilities and is higher by 13% compared to 2017 due to the attribution of profit for the previous year into the retained earnings.

The currency structure of the balance sheet

The share of assets in HRK decreased compared to 31 December 2017 and are 31.2% on 31 December 2018, and the share of assets in EUR increased to 68.8% on 31 December 2018. In total liabilities, the share of liabilities in HRK slightly increased from 20.9% to 22.1% on 31 December 2018. The share of liabilities in EUR decreased from 79.1% to 77.9% on 31 December 2018.

Ratios

Profitability ratios show an increase compared to the 2017:

- Realized return on equity (ROE) in 2018 was 13.9%, which represents an increase of 2.8 percentage points compared to 2017.
- Return on investment (ROI) was 50.6% which represents an increase of 14.9 percentage points compared to 2017.
- Return on assets (ROA) was 1.8% which represents an increase of 0.4 percentage points compared to 2017.
- Cost-income ratio (CIR) was 66.5% and it is lower by 11.2 percentage points compared to 2017 due to the higher decrease of operating expenses from decrease of operating income.
- NPL Coverage was 62.8% and was higher compared to 2017 when it amounted to 62.9%.

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 had a prior tradition of informing the public about its activities in non-financial and corporate social responsibility segments in its Annual Reports.
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 we do in order to achieve it. Through the segments of business, social and environmental responsibility we aim to fulfil our mission, i.e. encourage and support our clients, employees, shareholders and the community in achieving wellbeing together.
Our 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 we aim 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.

I. Business responsibility

Anticorruption

We believe that in order to achieve our vision and mission as well as business goals, we need to implement the highest ethical standards in corporate management and individual employee behaviour. Within this framework, the Bank implements policies and guidelines regulating the management of conflict of interest, anticorruption and the whistleblowing process, which are within the scope of the Non-financial Risk Division. Operations of the Non-financial Risk Division include the prevention of money laundering, prevention of fraud and monitoring the compliance with regulations on business activities on the capital market. The Sector also regularly identifies and evaluates compliance risks in cooperation with other organizational units of the Bank.

The Bank regulates the basic rules of corporate behaviour for its employees through its Code of Conduct in order to preserve and further develop the reputation of the banking business and the Bank in society, promoting the idea of professionalism, responsibility and transparency in its operations.

Due to its Anticorruption policy, the Bank enters into business relationships only based on integrity and high ethical standards. Employees of Erste Bank Croatia 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 the family of a civil servant or any charity organization a civil servant suggests) with the aim of influencing the recipient to take a specific official action or desists from taking it or with the purpose of influencing the civil servant to do business with the Bank.

I. Business responsibility (continued)

Furthermore, the Policy on the management of conflict of interest sets a general framework for identifying and managing potential conflicts of interest and supports employees of the Bank 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, 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 occur, and on the measures, principles and actions to implement 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 interest and/or assets of the Bank, towards corruption, violation of existing rules and regulations, legal acts of the bank and ethical principles. The so-called Whistleblowing policy establishes the process of reporting inappropriate behaviour regarding financial irregularities, corruption, fraud and money laundering, conflict of interest, actions against bank regulations and procedures, violating regulations on bank operations and the process of controlling and resolving these reports as well as the manner of reacting and protecting whistleblowers. Erste Bank Croatia therefore works on raising the awareness of its employees on the importance of reporting suspicious events, violations of prescribed procedures and acts of the bank through channels that guarantee anonymity.
Regular direct trainings are provided to existing and new employees with the aim of managing and preventing conflict of interest and promoting ethical behaviour.
The Bank sets key requirements for the implementation of policies regarding the management of conflict of interest, ethical behaviour, prevention of fraud, money laundering and anticorruption through its framework for document management implemented throughout Erste Group and its related companies.

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 we are 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 a good and efficient tax risk management for EBC Group, in response to new tax regulations, which include EU directives and local regulations. In addition to tax compliance, another important task of the Group Tax Office is to support its colleagues in the Bank and 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.

I. Business responsibility (continued)

Clients

Responsibility in operations, especially in relation to clients is the basic designation of Erste Bank Croatia operations which is reflected in offering special products and services aimed at specific client groups in response to their needs and living circumstances. This enables better availability of financial products to a greater number of clients such as a special offer of loan products to temporarily employed individuals or the possibility of a grace period during the payment of a loan for clients whose income has decreased during a particular period.

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. In order to achieve this, we operate beyond the framework of what is legally prescribed and for example we enable the transparent and simple submission and resolution of complaints, with almost 80% of complaints solved within three working days.

Our customer service is available 24 hours a day through various channels. In addition to this, we aim to create a user experience based on feedback from our clients. We continuously measure user experience and improve processes, products and services based on these results. Goals relating to the quality of service hold an important place within our key performance indicators.

In addition to this, the Bank has developed and offered several products for its clients with the aim of financing energy efficiency, the so-called eco-loans, both for citizens and companies, which promote the use of environmentally-friendly energy, the use of renewable resources, energy efficiency etc. thus further promoting the development of sustainability and energy efficiency in society. For example, clients who buy, build or adapt real estate in the A+, A, B or C energy class are provided with lower interest rates compared to regular home loans. The Bank also works with local and international financial institutions in order to offer better conditions for project funding to clients in the private in public sector, which also includes projects in energy efficiency and renewable energy resources. Through more favourable terms of funding, the Bank wishes to further encourage investment in the segments contributing to increased environmental awareness, efficiency and sustainability.

Through our operations we also aim to provide for disadvantaged groups and offer modified products to these client segments. We have created mini loans for clients with lower incomes – including offers for retired persons and employed clients. In this way we wish to offer quality means for achieving their goals even to clients with lower incomes. In addition to this, in 2018 we introduced payment cards for protected accounts which enables clients to use their funds outside the bank, i.e. on ATMs and when shopping. Clients on maternity leave still have the possibility of using overdrafts in the same amount and loans depending on income at their disposal through which we aim to additionally ease this turbulent and often financially draining period. Moreover, we offer products and services specially modified for pensioners such as pension payment to client accounts by the 5th of every month i.e. before the payment from the Croatian Pension Insurance Institute, and lower fees for managing the account. We also offer a special product for saving money aimed at children, Medo Stedo, with the aim of providing a first positive contact with the bank, stimulating the habit of saving money under a favourable interest rate and a special awards program.

Changes in client behaviour and habits, the technological revolution and regulatory frameworks inevitably require the redesign of the current business model and the role of offices as distribution channels for products and services of the Bank and its partners. Preparation activities began in 2017 in order to open first pilot offices in 2018, in a remodelled form and with a new visual identity as well as a new manner of work focusing on the advisory role of employees and a unique user experience for the clients. We can proudly state that last year we remodelled and opened four offices in accordance with our new *Advisory* concept. The first transformed office was opened in Pula in April, another was opened in Makarska in May, and in July and August 2018 two offices in Zagreb were refurbished under the new concept, on Velesajam and in Masarykova street. The *Advisory* project is aimed at changing the service model in providing services to natural persons, characterized by changing focus from the product to an advisory approach towards clients. In accordance with this client approach, we plan to continue with remodelling offices based on the new concept.

I. Business responsibility (continued)

In mid-December 2018 Erste Bank Croatia launched a new innovative mobile app called Keks Pay, which can be downloaded for free on iOS and Android devices and enables fast and secure money transfers with no extra fees. This is the first banking solution on the Croatian market aimed at all interested users, regardless of the bank in which they hold their account. The app resulted from the work of an internal start-up in Erste Bank Croatia, established with the purpose of developing innovative solutions and business models. This simple app has been created in compliance with the highest safety standards and in the two months since its launch, it has been used by over 20 thousand users.

Within the scope of services for small entrepreneurs, activities have continued on improving the business model for providing services through the Small Entrepreneurship Business Support Group, aimed at financial services and advising clients that are not highly profitable. It also supports financial representatives and offices in their provision of services to small entrepreneurs. The goal is to increase client satisfaction through a focused and proactive approach to this segment of clients, providing the speed, quality and availability of service.

We have also implemented a Client Contact Form through which clients can send questions to the Business support service for small entrepreneurs. The opening of this contact channel has increased the availability of support services to small entrepreneurs in the segment of improving information provision and advising clients.

In 2018 the Bank signed agreements on financing financial instruments with local and international financial institutions (HAMAG BICRO, HBOR, EIF). Financial instruments are co-funded by European Structural and Investment Funds (ESIF) and are given in the form of credit lines, guarantees and guarantee schemes, intended for micro, small and medium-sized companies with the aim of helping entrepreneurs access funding. For example, the beginning of this year saw the placement of HBOR ESIF credit for growth and development where the client pays interest only on half of the loan, while the other half secured through ESIF funds comes without an interest rate. In addition to this, the Bank has also signed an agreement with HAMAG-BICRO on ESIF capped portfolio guarantee covering loans in the amount up to EUR 300 thousand and a maximum portfolio of EUR 64 million. The Bank can also support clients by offering them a better interest rate with the portfolio guarantee.

Cooperation with institutions on local markets have also been continued and during this year agreements have been signed or renewed, with counties, local government and local self-government units, through various programs of loans for small and medium-sized enterprises.

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 the management of business activities in these industries in a way that is responsible towards clients and the society in general.

As part of Erste Group, Erste Bank Croatia supports the provision of financial services in the energy sector because we believe that the electricity supply is the key element for economic and social development, especially in the context of Central and Eastern Europe. At the same time, we see the need for reasonable management of environmental and social impacts in this segment, as well as the need for better management of environmental risks. This is why guidelines have been set in the Erste Group corporate funding for the purpose of implementing the principle of sustainability and regulating the participation of Erste Group in this industry.

We should also highlight our new website which contributes to the development of new digital services for business entities, and offer clients the possibility to submit a Request for opening a transaction account or additional services online, as well to submit Questions regarding funding, depending on the purpose for which clients need these funds. Easier access to information is also available to clients in this way, modified according to their real needs.

I. Business responsibility (continued)

In addition to these activities, employees of the Bank regularly take part in a range of group and local initiatives and projects as well as preparation of implementing regulatory changes, such as IFRS9, PAD, MIFID II, GDPR, the 4th AML Directive, the Act on Consumer Housing Loans and the Decision on the Effective Interest Rate.

Our longstanding commitment to excellent client experience in all contacts between the client and the Bank has also been recognized by our clients, which is visible through CXI results (Customer Experience Index), where better results were again achieved last year compared to the year previous, also when compared to the main competition, making Erste Bank Croatia a market leader in all measured categories of client experience and client segments.

Right to personal data protection

At Erste Bank Croatia, we are aware that the protection of individuals with regard to data processing is a fundamental right and that everyone is entitled to have their personal data protected. Principles and rules of personal data protection ensure the protection of personal lives, 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, ethnical or social background, income status, birth, education, social position or other characteristics.

a) GDPR (*General Data Protection Regulation*)

On 25 May 2018, all EU member states began implementing the *General Data Protection Regulation* (GDPR) which provided an added value to us at Erste Bank Croatia through the possibility of further approaching our clients by having transparent operations. This General Regulation introduces new definitions, describes existing terms in more detail, strengthens the rights of individuals and one of its goals is raising information security to the highest level in the area of accessing and managing personal information. The Bank continuously works on improving its processes, taking appropriate technical, staff related and organizational measures in order to protect the personal information of its clients, employees and associates. We are aware of how important personal information is to every individual.

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

Erste Bank Croatia has started the process of renewing the certification for the sixth consecutive year under the PCI/DSS standard. This standard confirms the compliance of the Bank’s operations with this state-of-the-art 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 included in the twelve strict requirements companies must fulfil in order to ensure data protection.

Employees

Our institution was established with the aim of providing the tools necessary for using one’s own abilities and potentials in achieving great or small, private or global plans. This applies not only to our clients, but also to our employees. We value and respect the fact that all employees are individuals in their own right and benefit the most from their diversity and variety. Erste Bank Croatia therefore strives to provide a high-quality work environment for its employees by ensuring adequate training and education, health protection, gender equality and reduced inequalities, by ensuring high-quality working conditions and social dialogue, by preventing human rights violations and discrimination, thus aiming to achieve maximum transparency and dialogue with the local community.

I. Business responsibility (continued)

Work standards

Ethical Code

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 continued development process with no expiration date or period of application and is mandatory for all employees.

In 2018 we launched ethical workshops for target employee groups where we relate guidelines from the Code of Conduct to actual challenges and situations, and promote positive behaviours. We shall continue offering these workshops in 2019 as well.

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.

Workplace flexibility

The Bank offers the following options for organizing working hours:

- Flexible working hours in organizational units where this is possible due to the type of work carried out there,
- The possibility of working part-time,
- The possibility of introducing working hours with different start and end times within the same organizational unit, depending on the employees' needs and possibilities of the job position,
- "My Day" is a flexible workplace project that allows employees to work outside the office up to two times a month.

At their request, breastfeeding moms are granted a breastfeeding break during working hours.
All of this is regulated by the Management Board Decision on the Program and Schedule of Working Hours, revised and adopted each year.

I. Business responsibility (continued)

Employee engagement

Baltazar and Ersterez – suggestion platforms
We believe that giving every employee the opportunity to make suggestions and present ideas on new ways of working, new products, services or further improvements of existing ones, constitutes an important element of our operations. There are two official channels at Bank level that the employees can use to make suggestions and be rewarded for this: "Baltazar" and "Ersterez". "Baltazar" focuses on innovation and "Ersterez" on reducing red tape. All the suggestions are submitted through the Bank's Intranet and are visible to all employees, who are welcome to develop and expand on these suggestions. The suggestions are evaluated by authorised and competent commissions that also publish their results on the Intranet and communicate directly with the employees whose suggestions have been accepted. Members of both commissions are representatives of senior management who can make a decision on the status of the suggestion right away (with additional consultations with other units if necessary) and they meet once a month.
Various rewards are provided for employees whose suggestions are accepted.

Roza
The ROZA programme (*ROtacija ZAposlenika* – Employee Rotation) is a planned and structured temporary reassignment of employees from their usual workplace to a different one, in order to build their knowledge, skills and experience. There are two ROZA categories:

- Mandatory employee rotation for new employees in non-sales sectors,
- Developmental employee rotation to a different organizational unit.

The purpose of ROZA is promoting employee development as well as the better cooperation between different organizational units and their activities.

Vezica
As an additional recruitment channel, we continued with our "Vezica" ("Connection") programme which presents a programme for attracting new, quality IT staff using the network of existing employees. Together with the IT and organization sector we chose specific IT positions for which the Bank is in shortage and existing employees are rewarded if they proactively recommend a candidate for employment in Erste Bank Croatia. In this way we ensure 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.

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 continued in 2018, when employees had the opportunity to discuss last year's current topics with the Board.

Continual and sound cooperation with employee representatives (Workers' Council and Trade Union)
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 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.

I. Business responsibility (continued)

Health and safety

Health protection

Efforts devoted to protecting employees' health are an important factor for every company, and Erste Bank Croatia is no exception. We offer several possibilities in this area:

- A private health insurance policy at a clinic available to all employees of the bank,
- A free annual physical examination, including suggested additional tests,
- Preventive flu vaccination at the expense of the employer,
- 24-hour extra accident insurance,
- Lectures on health topics available to employees in several major cities,
- Additional benefits such as lower prices for services and products offered through a broad and stable network of external partners (e.g. discounts at sports facilities, spas, clinics, etc.),
- Participation in sports events (Banking Games, B2B race, etc.),
- Organized yoga classes for employees in Zagreb two times a week.

All health-related benefits are equally available to all employees – to members of the Management Board as well as all other Bank employees.
In addition to this, employee health is directly protected through facility maintenance based on the SLA (Service Level Agreement as part of the maintenance agreement) and legal requirements, provided through the regular cleaning of ventilation shafts and air conditioners, office cleaning and disinfection, measures for disinfection, disinfestation and pest control as well as other preventive forms of facilities maintenance.

Safety

We know that raising awareness and trainings for our employees constitute one of the key foundations for successful business operations. Our employees go through specially designed training programmes to be informed on safety risks and in order to improve their actions in everyday work at their workplace.

Occupational safety represents an important segment in everyday operations of the Bank. As a system it 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, we use basic, special and approved rules, and the primary legal framework is set through the Occupational Health and Safety Act. We train employees within the bank in different segments. They are trained in theory and practice, depending on the type of training, which is partly provided through an eLearning service in elements where this is possible, thus enabling the employee to go through the training at the time most convenient to him/her, and depending on the workload. 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, which is why in 2018 the Bank focused on training employees in this area as well as providing evacuation exercises in all offices.

I. Business responsibility (continued)

Gender diversity/equality and prevention of discrimination

In Erste Bank Croatia, 73.1% of employees are women, and the remaining 26.9% are men. Overall, the percentage of women in managerial positions at the end of 2018 was 55.8%, compared to 56.69% a year earlier. In terms of senior management positions, the share of women increased during the same period from 24.1% to 29.2%, while their share in middle management positions was decreased from 66.3% at the end of 2017, to 61.9% at the end of last year. The average age of employees in the company is 39, while the average age of employees in managerial positions is slightly higher at 43.5 years.

The prevention of discrimination is regulated by the Work Regulations, which also describe the complaint procedure and activities to be taken by those in charge of complaint resolution. Employees from Legal Divison and Human Resources Division authorized for resolving complaints related to the protection of dignity and protection against discrimination within Erste Bank Croatia are appointed through a decision issued by the Management Board.

There is no discrimination in the selection and recruitment process, and the job ads always underline that persons of both sexes are welcome to apply. All interested candidates who meet the requirements for the job, as defined in the job ad, have the opportunity to apply for all advertised positions.
The EBC Group Diversity and Inclusion Policy was adopted in early May 2017, regulating the principles of diversity and inclusion to which EBC Group is committed. Our partnership with the association Women in Adria, whose Future Leaders Conference we sponsored, is one of the initiatives launched under this policy. The Conference was organised to promote and empower “emerging women” and to provide advice and guidance in today’s business world.

Diversity Charter

The Diversity Charter is a document developed individually by each country, and is signed by businesses and other organisations as a token of their commitment to implement the policy of diversity and non-discrimination in their working and business environments. The project was launched at the beginning of the year, and Erste Bank Croatia is among the signatories to the Charter, with emphasis on diversity in creating a stimulating work environment.

The Croatian Business Council for Sustainable Development is an organisation promoting the implementation of corporate social responsibility in Croatia, and the Charter contributes to social development and promotion of equal opportunities for groups of different social backgrounds.

Trainings and education

At Erste Bank, we believe 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:
- Classroom learning: formal training (seminars, trainings, workshops, conferences),
- On-the-job training and mentorship,
- Coaching,
- Rotations,
- E-learning,
- Professional literature,
- Participation in projects, etc.

I. Business responsibility (continued)

The standardised trainings and educations organised at the Bank are included in the Training Catalogue, a separate document published on the Bank's Intranet and available to all employees. The Training Catalogue is divided into:

- Professional trainings categorised by specialised know-how and organisational units,
- Trainings related to the key company training model - separate trainings for employees and managers,
- E-learning programmes related to key company trainings, first introduced in 2016,
- MS Office trainings,
- Employee rotation programmes,
- Trainings in human resources (train-the-trainer, mentor trainings, etc.)

Competence quarters

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 we intend to offer different training formats to our employees, we introduced short 90-minute trainings (" Espresso Trainings") offering trainings in specific skills such as feedback, SMART goals etc., depending on the current topic in the performance management cycle.
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 100% of our employees 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 we are still making very intensive use of the internal knowledge database and internal trainers
Compared to 2017, the average number of training days per active employee decreased from 4.89 to 4.17.

Employee programmes

Due to business line needs, we have continued with the development of various tailor-made programmes for specific groups of employees throughout 2018:

- *Erste Start* – modular soft skills programme for all newly employed and newly promoted managers,
- *Erste Forward* – modular soft skills programme for managers who have not been in some other soft skill development programme for a longer period of time,
- *UP* - programme for the development of managing and sales skills for sectors in business operations with corporates*,*
- *REA* - programme for the development of directors in regional directives of the Retail Division and Small Entrepreneurship Department,
- HR refresh – a programme for line managers related to current issues and practices managers encounter in their everyday operational staff management,
- SUPEeR – tailor-made development programme for all managers in the Controlling and Accounting Division.

Among our new trainings, we would like to highlight trainings for special employee groups such as trainings for young mothers returning from maternity leave, which deal with efficiently organizing their private and professional lives as well as workshops for colleagues preparing to retire.

I. Business responsibility (continued)

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

In addition to these programmes, cooperation was established with external training organizations and institutions in 2018, and their programmes were used for employees and managers that were recognized as having particular potential.

Corporate culture

Blue Elephant

This is corporate culture project that was launched with the purpose of actively managing our corporate culture. It is a common denominator for all our activities, values, and behaviours through which we define and support corporate culture. The name and identity of Blue Elephant is 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:

1. Employment of a certain (correct) profile of people
   Super profile – defining a universal and optimal profile of candidates for specific jobs (e.g. cashier);
2. Cooperation
   Developing the culture of open, honest and constructive feedback with mutual respect;
3. Impact and development management
   Lowering responsibility, delegating tasks, promotion and celebration of success, and credibility;
4. Consequence management
   Timely communication of good and bad things/segments and assuming responsibility;
5. Innovativeness
   Dedicating time and resources to the development of new ideas and innovativeness in employees

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

The Blue Elephant's goals are:

1. to raise awareness about the importance of corporate culture and its impact on employees and clients
2. to ensure personal engagement from the top to the bottom as well as dedication to making changes
3. to ensure easy and simple identification of all employees for the purpose of the company
4. to increase satisfaction with Internal Communications
5. to contribute to the quality of human resources management

I. Business responsibility (continued)

The Blue Elephant is integrated in the internal communication through presentations, the so-called workshops with a purpose, the creation of the employees' personal Blue Elephant, Erste Get-Together meetings – meetings of the Management Board with the employees, publishing a dedicated newsletter, forming the Blue Elephant Ambassador network, a section on the intranet titled "Whisper it to the Blue Elephant", direct communication of the Blue Elephant project via email or a profile on the intranet, as well as a personalized planner received by each employee.

In 2018 we continued with connecting content related to corporate culture and internal quality through various forms of trainings: workshops within training modules in sales sectors, the Erste Start programme and Introductory lecture, specific workshops adjusted to specific needs, trainings which are a part of the competence quarter, lectures and workshops on work-training meetings. Over 800 colleagues have attended these trainings and they react well to the content covered, seeing it as useful and motivating. In addition to dealing with the aim and principles of our work, in 2018 we also broached the topic of ethical business which is important for us in the context of organizational culture both internally and towards external clients.

II. Social responsibility

Transparency

Clear, transparent and simple communication with all public stakeholders is one of our main goals. We publish useful advice from the field of finance on a regular basis through the Bank's website, and we are also present on numerous social networks (Facebook, LinkedIn, Twitter, YouTube, Instagram, Blog Without Tie) and thus contribute to education and transparent communication with our clients and across the general public about numerous topics from the field of financial literacy and general knowledge in the field of economics – such as macroeconomic trends, capital market developments, security issues related to bank card use, fraud protection, savings and investment advice, and many other topics.

In addition to this, one of Erste Bank's important goals is creating and continuously maintaining quality long-term relationships with media representatives as the direct mediators of public interest. The role of the Bank in reaching this goal is based on the principles of openness, availability and respect for the role of the media in public discourse. Through the creation of a well-established and transparent communication platform, while at the same time coordinating all communication activities with the members of EBC Group in Croatia and abroad, we strive to ensure a high-quality and seamless flow of information towards the public, and all of its stakeholders.

Dialogue with the local community

The Bank endeavours to nurture 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, as exemplified, in part, by the following:

- Golden partnership with AIESEC for the second consecutive year and participation at the AIESEC Business in Practice conference;
- Continuation of the strategic cooperation with the Technical College in Bjelovar;
- Participation at the 2018 Career Week organised by the Faculty of Organisation and Informatics,
- Participation at the 2018 Career Week organised by the Faculty of Electrical Engineering and Computing,
- 13th “Student Future Day” organised by the Zagreb School of Economics and Management (ZSEM),
- 2018 “Career Education Day” organised by RIT Croatia,
- The Higher Education and Scholarships Fair in Rijeka and Zagreb organised by the Institute for the Development of Education, and
- Job fairs organised by the Croatian Employment Service in several cities

II. Social responsibility (continued)

During 2018, 93 students carried out their traineeship programme at Erste Bank Croatia. 64 of them applied for unpaid traineeship as a fulfilment of their obligation at their faculty or to gain a basic insight into the real business field of their interest.

With its student programmes, Erste Bank Croatia also joined the Youth Initiative, started with the aim of facilitating the inclusion of young people in the labour market. The Youth Initiative was started by the Croatian Employers' Association and the European Bank for Reconstruction and Development, while Erste Bank Croatia wants to bring the possibility of acquiring quality first work experiences and potential further employment even closer to young people.

Scholarships

The implementation of two 3-month traineeship programmes, "Dress Rehearsal" and "IT Lab", was continued in 2018. These are intended for students of economics and business in Zagreb, Rijeka, Bjelovar, Split, Zadar, Pula and Dubrovnik as well as students of technical faculties who are oriented towards the acquisition of practical and theoretical knowledge, and are aimed at connecting students with the EBC Group in Croatia. Three of these students received scholarships and four continued to work at the Bank.

During the year, 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 2018, 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, Erste Bank Croatia is the largest individual sponsor and will grant scholarships in the monthly amount of HRK 1,600.00 to four students during the next five years.

Social banking

We believe that entrepreneurship can be a positive model of solving social issues or situations. From Erste Bank Croatia perspective, support to sustainable entrepreneurial project instead of one-time sponsorship and donation can be a long-term solution. Erste's social banking initiative encourages financial inclusion of beginner entrepreneurs, non-profit organisations and social entrepreneurs, offering them access to financial products, financial counselling and ongoing mentorship tailored to their needs. During 2018, we intensified our activities in these areas.

Through the Entrepreneurial Starter programme, intended for all those who are embarking on an entrepreneurial venture – beginner entrepreneurs who have opened their own business within the past two years, we want to stimulate self-employment and the development of entrepreneurship by providing support on the path from the conception to the implementation of a business idea. The programme includes free training, business tools, connections to business partners, consultations, drafting of a business plan and, finally, funding. The aim of these measures is to create new jobs through the reduction of the unemployment rate and facilitating access to financing.

II. Social responsibility (continued)

As part of this programme, a total of 331 applications were received in 2018. A total of 42 entrepreneurs were funded in the amount of over EUR 700 thousand, which created 73 new jobs. It is also interesting that as many as 60% of beginner entrepreneurs are younger than 40. In order to increase availability to broader audience, the Bank's website has been modified to offer free manuals and business tools to all those interested, starting with students to those who are seriously interested in starting their own business. By the end of 2018, the website had 14,400 visits and 1,200 downloads of business tools. Clients spent 334 hours on e-learning, and 77 of them completed it. Furthermore, our colleagues provided 810 hours (approximately three months) of business consulting prior to funding, which resulted in a total of 191 clients making a business plan.

In the past year, we also started implementing the programme of support and financing of the organisations of civil society and social entrepreneurs and continued programmes of partnership with non-profit organisations. As far as funding is concerned, we have funded 5 non-profit organisations and social entrepreneurs with EUR 273 thousand. We provided non-financial support through partnership with ACT Group, through the implementation of the “Accelerator for Social Entrepreneurs” project. A total of 88 attendees were trained, of whom 20 were mentored and 5 were awarded.

This great and long-term project took place because we in Erste Group believe that the economic and social impact of small entrepreneurs, non-profit organisations and social entrepreneurs is extremely important. Namely, through the impact of the multipliers, many social and economic changes occur from creating new jobs, increasing consumption and offering new services to increasing the quality of life. Therefore, at the end of 2015, the international Erste Group started the social banking initiative Step by Step, which was joined by Erste Bank Croatia too. Through the programmes we carry out in this area, we aim to up the development of strong and sustainable social entrepreneurs, increase their social influence and strengthen the support eco-system in Croatia through socially responsible banking.
Erste Bank Croatia recognizes the great importance of investing in the community it operates in and is actively involved in various initiatives and projects that contribute to the development of society and the quality of life, both locally and across Croatia. During 2018, the Bank once again participated in numerous cultural, scientific, health, educational, sports, environmental and charity projects, giving a total of HRK 11.45 million through donations and sponsorships. Here is a brief summary of the most important initiatives that we have supported through sponsorships or donations:

- About 150 charity projects and institutions
- About 120 educational projects
- About 200 sports clubs, associations and projects
- About 90 cultural and art projects and institutions

In 2018, we remained the general sponsor of regional projects such as the International Rijeka Carnival, which contributes to the promotion of the tourist offering of the City of Rijeka, the Small Scenes Theatre Festival in Rijeka, the 50th International Puppet Theatre Festival – PIF, which gathers the best European, world and regional puppet theatre plays from 8 countries, the BOK Bjelovar Theatre Festival, which in addition to theatre performances includes other accompanying events, such as music concerts, film screenings, actors' exhibitions, but also some new and quite original events such as a radio drama readings on a train, as well as the DOKUart Documentary Film Festival, which also comprises a Small DOKUart programme, dedicated to the works of secondary school students from all over Croatia.

II. Social responsibility (continued)

We also support a series of other cultural events, which contribute to the promotion of local customs, culture and tourism. These include the Matulj and Osor Musical Evenings, which take place in the summer months, the Šibenik Chanson Festival, the Picokijada Festival in the City of Đurđevac, based on real historical events, and the International Lace Festival on Pag Island. Then there's the Days of Croatian Tourism Festival, which promotes and recognizes the best achievements in the tourism sector, the Pula Jazz Festival, held in the Pula Arena and the Istrian National Theatre, and the three-day Vukovar event "Let's Experience Croatia Together", during which all Croatian regions present their specific cultural and gastronomic offering.

Our continued activities as part of the creative Urbanka platform for the support of cultural projects brought about projects such as the Zagreb Comic Con, the Plants and Concerts Festival – a series of concerts held in city parks and botanical gardens, the International Photography Exhibition, organized by the Organ Vida association, which won a prestigious international award, the International Graffiti Festival Grilled Graffiti, which gathers international acclaimed graffiti artists who present their work by creating murals that they bestow to the cities in which the festival is held. As part of the 14th annual Urbanka platform, the Erste Fragments project was held for the 14th time, receiving over 300 submissions in 2018. Erste Fragments is an annual competition for the purchase of numerous works of art by young Croatian artists (under the age of 30), which are then exhibited in the premises of Erste buildings and branch offices across Croatia. The Bank also supports young artists through awards and scholarships for students of the Academy of Fine Arts.

As part of our activities aimed at supporting the social community, in 2018 we have again made donations to support the training of young paediatric surgeons and to improve hospital work conditions in the Zagreb Children's Hospital, the SOS Children's Village for children without parental care and the Krijesnica association for children suffering from malignant diseases. We have made donations to the Bjelovar General Hospital, used to purchase a mobile ultrasound device and for the renovation of the floor in the intensive care unit, and to the Zadar General Hospital, used to raise the quality of the services provided by the hospital. We have also provided support to the Solidarna Association as part of its project to provide free transport to women suffering from cancer to their chemotherapy, and to the Zadar Cancer League for the procurement of radiotherapy equipment.

We believe that individuals can achieve their full personal growth and potential only when allowed to freely express all aspects of their being, which is why we also support gender equality projects, such as Vox Feminae, Trans Aid and Zagreb Pride.

Considering the ever increasing importance of financial literacy, we strive to use our donation and sponsorship activities to get involved with as many initiatives such as the Blue Office – a programme aimed at stimulating self-employment and entrepreneurship through workshops, lectures and tools, used by the Erste Bank Croatia to provide support in the conception and implementation of business ideas and start-up projects, encouraging young entrepreneurs to develop, present and launch their own businesses.

II. Social responsibility (continued)

One of the driving forces behind creation, development and growth is knowledge, which is why we strive to use our donation and sponsorship activities to get involved with as many initiatives and events as possible that focus on educational activities. These include: the Future Leaders project (Women in Adria), the Shhhefica portal, the Torpedo student festival, furnishing classrooms and procuring equipment for the Bjelovar Polytechnic and numerous primary schools and high schools in Croatia. We also sponsor AIESEC Croatia – an international student association with which we have renewed our Golden Partnership for the third consecutive year, and participated at the Winter Leadership Development Forum, the Youth Speak Forum Zagreb, Global Village Zagreb, and the “Sell me this Pen” Conference. Additionally, we have continued our strategic partnership with the financial club of the Faculty of Economics and Business in Zagreb and attended conferences such as the 2018 Student Investor Conference, CROnomics and the European Money Week. We also cooperate with various faculties and schools such as the Faculty of Economics and Business in Zagreb and Rijeka, the Bjelovar Polytechnic and the Student Support and Career Development Centre of the Faculty of Organization and Informatics in Varaždin.

In addition to this, Erste Bank Croatia promotes the importance of sports projects and sponsorships that emphasize the importance of the promotion of sports, particularly those promoting sports activities among children. Two such projects are the Erste Blue League and the Erste Dalmatian Handball League.
The Erste Blue League is a children's sports league open to primary school students in Croatia enrolled in grades 3 to 6, and is aimed at developing a spirit of sport in children and encouraging them to participate in sports activities.

During the 6th Erste Blue League that was organized in 2018, the “60 Minute GO” campaign was carried out, gathering well known athletes, coaches, teachers and institutions in contributing to the creation of equal opportunities and conditions for all children to participate in the 60 minutes of physical activity per day. In the six years of this campaign, 22,686 competitors and more than 50 thousand coaches, parents and teachers participated. In 2018, 3,292 students competed in Erste Blue League competitions.

The Erste Dalmatian Handball League is a unique children’s handball league intended for primary school students enrolled in grades 2 to 7. We want to show that everyone needs physical activity to grow up healthy and happy, and to allow children to get involved with 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 get involved with the competition. The first season of the League was held from March to June of 2018. Over 4,500 children participated, with about the same number of parents and supporters, playing as many as 501 mini handball matches. The League comprised 26 handball clubs, 15 cities and 5 counties.

Through sports sponsorships, we also support the traditional sailing regatta Fiumanka, which shows how to develop nautical tourism in the Kvarner region, and which gathers more than 200 sail boats, and the race “Homo si teć”, which attracts more and more runners every year with its humanitarian character. In 2018, we also supported the Davis Cup - a tennis world championship that was held in Zadar this year and the Croatian Olympic Committee, which comprises a large number of sports federations, with the aim of supporting the development of Croatian sports.

Erste employees regularly participate in the B2B Run races, business races aimed at employees of companies registered in Croatia.

In addition to this, Erste provides support to its employees in the form of donations to participate in covering the treatment costs of severely ill employees and their children.

II. Social responsibility (continued)

We should also mention initiatives launched by various sectors of the Bank. 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. In 2018, total of HRK 27,350 was donated through the Fund to two children homes. Of that, HRK 9 thousand was donated to the *Ruža Petrović* home in Pula for highschool graduates to help them pay the costs of excursion. Also, total of almost HRK 3 thousand was donated to the housing community of Children’s Home Maslina from Dubrovnik.

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 cashiers benefit from the fund (job positions: junior cashier, cashier, senior cashier, cashier assistant, treasury cashier, cash operations manager, branch office manager that works at the cash register and other jobs that include working at the cash register). The membership fee is HRK 25 a month for cashiers and is collected from members' salaries, while other members that join the fund out of solidarity donate any amount they want, which they specify upon joining.

Last year, Erste Bank Croatia 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*. It is about a collection founded in 2004, which includes more than 600 works of art by 104 artists/artist groups from 17 countries, focusing on Eastern, Southeastern and Central Europe. 109 of these works are by 16 Croatian artists. The collection is complemented with new works of art every year.

Humanitarian campaigns

Erste challenge

The campaign lasted from January to December of 2018, and as part of it the employees of the entire EBC Group in Croatia undertook to run 100 thousand kilometres, but ended up exceeding their goal and ran 120 thousand kilometres. The Bank decided to reward the successful achievement by donating HRK 35 thousand to the Karlovac-based association “Jak kao Jakov” (“Strong as Jakov”) to aid children suffering from malignant diseases. The five most persistent runners received symbolic presents.

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. 2018 was the second consecutive year in which employees were allowed to carry out corporate volunteering activities during their working hours, as individuals or in groups.

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, cleaning the environment, etc.
Last year was mostly marked by group volunteering campaigns in several institutions with which we have developed a good cooperation. These are the following:

- *Lug Centre for Education*
- *Maksimir Home for the Elderly*
- *Home in Brezovica for children and adults with physical or mental impairments*

In addition to this, some of our colleagues chose to volunteer individually (or in pairs) by working at the sales stand of the *Strong as Jakov* association.

II. Social responsibility (continued)

Since 2015, the Bank is a signatory of the Charter Recognising Competences Acquired by Volunteering, and last year we have received two letters of gratitude from the Red Cross for our selfless contribution to humanitarian tasks and for our promotion of socially responsible business practices, volunteering and selfless aid and humaneness.

Also, some of colleagues chose to volunteer individually (or in pairs) by working for the Dumovac shelter for abandoned animals or by playing Saint Nicholas in the Predavec Elementary School. The volunteer work was organised so that employees received information on volunteering opportunities via Intranet or found such opportunities themselves in their surroundings. At times, they would ask the Human Resources Department to help them find a volunteering opportunity or to help them organise their volunteering activities. In 2008, we have increased our total number of volunteering days to 104, which represents a 20% increase compared to the previous year.

Happy Hour

Employees of the Bank regularly, two or three times a year, organise campaigns of selling cakes and other sweet products (made by themselves) and thus raise funds that they donate to associations or individuals in difficult life circumstances. This tradition was continued in 2018.

Last year was the second consecutive year in which employees were allowed to carry out corporate volunteering activities during their working hours, as individuals or in groups.

Exchange of knowledge

For nearly 20 years, we have been relentlessly working on ourselves and our products, processes and services within Croatia so that we would respond to the wishes and needs of our clients in the best possible way within our operations. We also believe that knowledge is the driving force of every society and we are aware of the responsibility we have in the area of developing financial literacy at every age.

Therefore, the Bank periodically organises various workshops and educational modules for clients and the general public. Thus, a project comprising a series of lectures entitled Small School of Banking, focused on financial literacy and intended for primary school children was continued in 2018. It presented the basic information and interesting facts about money, saving, online shopping and other related subjects in a comprehensible way.

Our colleagues often visit kindergartens and kindergartens groups, as well as primary school children, to familiarize them with various financial concepts, the purpose of money and other financial institutions. This is particularly pronounced on the Savings Day, which is marked in the Bank with the arrival of kindergarten and primary school children to branch offices. They have a chance to talk to the cashiers, advisors and personal bankers, and ask everything they want to know. Our savings mascot, Medo Štedo, is especially interesting to children and also plays a major role in promoting financial literacy.

II. Social responsibility (continued)

School of Smart Finance

In 2018, we launched the Smart Finance School pilot project, a national programme of socially responsible business practices of the Erste Bank. Free-of-charge group workshops lasting up to two hours on Personal Finance Management provide participants with basic financial knowledge and encourage them to adopt good financial habits. The pilot project will also include a video learning module that will be promoted via digital channels such as Facebook, Instagram and YouTube.

Apart from this, last year, as in 2017, Erste Bank Croatia also actively worked on developing financial literacy of the society by participating in the traditional marking of the World and European Money Week, by organizing lectures and workshops of Erste employees. Last year, the week was marked between 12 and 16 March, and the Croatian Chamber of Economy organised lectures in five Croatian cities.

In 2018, Erste Bank Croatia also organised workshops for families with limited financial resources.
Employees of Erste Bank Croatia often participate in other workshops, lectures and events organised for the purpose of increasing financial literacy.

Awards and recognitions

We believe that others describe us best, so we would only like to point out some of the awards and recognitions we received last year.

Just as in 2017, last year we participated successfully in the selection of the best HR practices as part of the annual HR Days conference, which gathers HR experts, managers, entrepreneurs and representatives of state institutions. Among the about 30 submitted practices, our IQ project – development of internal quality – was selected among the top 5, which provided us with the opportunity of presenting it to the about 400 gathered experts and HR colleagues.

At the 2018 Future Leaders conference, organised by Women in Adria, our colleagues Ivana Gracin, Ivana Tomičić Župan and Dejana Dojčinović Drilo won an award in the banking category.

In mid-2018, Erste Bank Croatia was declared to have the best HR practice in Croatia by the leading consulting company for human potential management and, among other things, earned the prestigious Employer Partner Certificate. The Employer Partner Certificate is a recognition awarded to organisations based on the assessment of the development of employee management practices in five main areas:

- Strategy,
- Recruitment and selection,
- Performance management,
- Training and developing and
- Relationship towards employees.

II. Social responsibility (continued)

The Bank, together with two other Croatian companies, achieved 98% out of the total number of possible points in the certification process and thus won this award.

In an independent survey on companies and their employer branding carried out by the CareerCentar portal and several independent experts, the Erste Bank Croatia was selected as one of the top 25 companies, ranking a high ninth (first in the banks and financial institutions category). The categories that were evaluated were the following:

1. Career page
2. LinkedIn page
3. Job advertisements
4. EVP
5. EVP segmentation
6. Job application process

At the annual Meeting and Business Forum of the European Bank for Reconstruction and Development (EDRB), which was held in Jordan, recognitions were awarded to the most active partner banks for 2017 as part of the Trade Facilitation Programme (TFP). Erste Bank Croatia received the award for the most active partner bank in financing export and trade in Croatia.

Also, Erste Bank Croatia received the Annual Award of the Contact Centre Academy in the category of the Best User Experience.

Of course, there are many other awards and recognitions that colleagues won based on good work and outstanding results.

III. Environmental responsibility

In the ecology and environment segment, Erste Bank Croatia strives to achieve business processes of greater quality and environmentally sustainable business practices. In the interior design and equipment of the offices, as well as in our daily work and communication with clients, we try to achieve as high environmental standards as possible.

Because of the environmental aspect of saving paper, as well as simpler use, we inspire the Bank's clients to work and operate online more, which is why the Bank allowed for the digital submission of requests for the Bank's products. Also, in our offices, the General Terms and Conditions are available via tablet devices, rather than in paper form. We mainly try to replace posters in offices with digital displays wherever possible. Instead of classic notifications that we send by mail to home addresses, we try to send as many memos as possible by e-mail, and we often carry out individual campaigns for transfer from paper monthly statements to electronic ones. Also, we have introduced digital filing folders that are managed centrally, which also saves paper.

In its daily business, we use ecological, recycled paper for printing across Erste Bank branches in Croatia, and we plan to continue this practice in the future.

Also, at the initiative of employees, the commendable "Project for PET" was launched. This is a project of the organized collection of plastic packagings in Erste business centres in Zagreb and Bjelovar, which is carried out in cooperation with the Association for Promoting Inclusion. The Bank's employees collect plastic beverage bottles that beneficiaries of the association carry to recycling yards, and use the collected funds to finance some of their needs. With the organized collection of plastic bottles, Erste Bank Croatia helps the community in which it operates in two ways. Apart from recycling big amounts of plastic bottles, which is an environmentally useful act per se, the Bank helps to launch entrepreneurial activities of the socially vulnerable population – mentally-challenged persons who usually have a very hard time finding employment. Also, reduction of the amount of plastic waste in the form of PET water bottles at the level of the entire network of the Bank is carried out with the introduction of devices for the production of potable water obtained from the water network in a reverse osmosis process. The potable water, which is available to employees in this way, is not in plastic packaging. Additionally, with the procurement of a larger number of drinking glasses made from glass for our kitchenettes, we have attempted to reduce the use of disposable plastic water cups, at least as far as our employees are concerned.

In the interior design and equipment of our branch offices in accordance with the new advisory format, which in addition to business operation practices includes the visual identity of the Erste Bank Croatia, we have adopted the installation of green walls made of live plants as a standard, which has proven to be an exceptionally favourable for pleasant working conditions of our employees and their coexistence with nature. In addition to the management building In Ivana Lučića Street 2 in Zagreb, green walls have been installed in our branch offices in Pula, Makarska and Zagreb (in Masarykova Street and Dubrovnik Avenue).

Also, the Bank is a member of the NGO Croatia Green Building Council and actively participates in the discussions and projects regarding green projects in civil engineering, discussions on new trends in this field, etc.

III. Environmental responsibility (continued)

ISO 14001:2015

According to the ISO 14001:2015 standard, which was introduced in all offices of the Bank in December of 2017, the Bank opted for sustainable development and care for the environment protection, which is visible from the ISO standard-based Environment Protection Policy. The long-term goal is reduction of our negative impact on the environment through an increase of our energy efficiency, a reduction of resource consumption and continuous improvement of the Environment Management System.

The active cooperation of our employees is of key importance for the achievement of these goals. In this regard the plan is to educate all employees on how to rationally save energy and consume less paper, how to correctly sort waste and a systematic training programme in the ISO 14001 standard and all of its elements and goals.

In 2018, an authorized certification company conducted a one-year external audit to verify the functioning of the Environmental Management System in accordance with the ISO 14001:2015 International Standard. The Bank has undertaken all necessary activities to extend the ISO 14001 certificate for another year. The same was done by our affiliated companies ECC, Leasing and Erste Bank A.D. Podgorica.

Waste sorting and the reduction of unsorted municipal waste

Last year, the Bank introduced waste sorting for its entire business network in Croatia, installing containers for sorted waste disposal, introducing prescribed procedures and carrying out a training programme for its employees. For now, waste is sorted into paper, plastics, metal and glass.

In order to reduce our negative impact on the environment in the future, and to additionally reduce the amounts of unsorted municipal waste, the Bank introduced linen roller towels instead of paper towels in its washrooms. Considering these were introduced in December of 2018, the planned positive effects will not be noticeable until next year.

In line with the recommendation of the certification company for the ISO 14001 standard, we have created the required prerequisites for the installation of battery recycling bins, which the Bank plans to introduce across its entire branch office network throughout Croatia by the end of 2019.

Consumption of energy resources and photocopy paper

The Bank continuously monitors and works on the reduction of its consumption of energy resources and photocopy paper. In this regard, it has organized several training programmes for its employees throughout the year. The Bank had planned to reduce its consumption of energy resources and photocopy paper by 0% to 0.5% compared to 2017, but the actual reduction was even greater:

- Electricity consumption has remained at the same level (10.05 GWh), but it should be noted that the Bank took over a server room in Bjelovar from the Erste Card Club d.o.o., whose annual electricity consumption amounts to 0.14 GWh. In effect, this means that electricity consumption was reduced by 1.0%.
- Thermal energy consumption was reduced by 3.0% (annual consumption in 2018 - 3.83 GWh)
- Photo-copy paper consumption was reduced by 4.1% (98,711.17 kg was consumed compared to 102,946.80 kg in 2017). It should also be taken into account that the Bank was legally obliged to issue new contracts for the current accounts of private clients, with 3,500 paper packagings consumed. Without this, the consumption reduction would have amounted to about 12.5%.

III. Environmental responsibility (continued)

In August of last year, we have renewed our agreement with the national energy company HEP for the supply of electricity from 100% renewable resources, which means the Bank will continue to keep its CO2 emission levels very low.
In 2018, we have continued with the installation of protective films against the sun, which apart from offering much better working conditions for employees during the summer also lower the consumption of electricity necessary for the heating as well as the lighting system. The installation of the films is now a standard for all new branch offices and the refurbishment of existing ones.
Erste Bank Croatia pays special attention to the fact that all aspects of environmentally friendly and sustainable business practices are taken into account in the interior design and equipment of its offices and other business premises. As part of this, programme and technical solutions are used to optimize the consumption of energy sources, regularly maintain the equipment to increase its durability and reduce waste amounts, to use uses energy-saving bulbs, LED commercial advertisement boards, etc.

Liability of suppliers

Erste Group sees its suppliers as partners in developing the sustainability of its operations. When selecting our suppliers, we take into account sustainability and corporate social responsibility, and we choose 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. Our 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, we expect the following from the suppliers of materials, equipment and services chosen as our partners: respect of national and local laws and regulations, 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.

This is 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 doing business in line with them.
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 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.

III. Environmental responsibility (continued)

We are 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, we also address 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.

We also encourage social responsibility through the selection of suppliers and the type of goods and services we use, including promotional marketing materials. Among other things, we often choose 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, we order holiday cards from SOS Children's Village Croatia, and not from commercial suppliers, and we thus encourage responsible business within the society and the community.

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.

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.

Corporate Governance Statement (continued)

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.

Regarding the risk relating to the financial reporting procedures, the main risk is that errors or deliberate actions (fraud) prevent facts from adequately reflecting the company's financial position and performance. This is the case whenever the data provided in the financial statements and notes is essentially inconsistent with the correct figures, i.e. whenever alone or in aggregate they apt to influence the decisions made 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.

Furthermore, especially estimates for the determination of the fair value of financial instruments for which no reliable market value is available estimates for the accounting of risk provisions for loans and advances for provisions, complex measurement requirements for accounting as well as difficult business environment bear the 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 June 15, 2018 the Bank held its regular General Meeting at which a decision on Profit Distribution for the year 2017 was made. Net profit for 2017 amounts HRK 649,495,380.60 was distributed for the retained earnings in the amount of HRK 489,334,610.35 and for the shareholders' dividend in the amount of HRK 160,160,770.25. Total amount of dividend represents 24.66% of Erste&Steiermärkische Bank d.d. net profit, and the dividend was determined in the amount of 9.43% of the nominal value of a share, amounting to HRK 9.43 per share.
The payment of dividend was effectuated as of June 29, 2018.

PricewaterhouseCoopers d.o.o. was appointed as the Bank's auditor for 2018, and the decisions on granting discharge to the Management Board and Supervisory Board members and on suitability of the Supervisory Board members were adopted, as well.

Corporate Governance Statement (continued)

Besides regular General Meeting, in 2018 the Bank held one extraordinary General Meeting as well.

At extraordinary General Meeting held on January 29, 2018 Decisions on suitability assessment of the candidate for the Supervisory Board, on election of the Supervisory Board's member, on determination of the remuneration for the Supervisory Board member, on amendments of the scope of the Bank's business and on amendments of Article of Association.

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 5 (five) members. One member of the Management Board is appointed as the president of the Board. The Management Board conducts its activities and adopts its decisions and resolutions at the Meetings. The organization, operation and decision making of the Management Board are regulated by the Rules of Procedure of the Management Board.

Members of the Management Board are:

- Christoph Schoefboeck, President of the Management Board,
- Slađana Jagar, Member of the Management Board,
- Borislav Centner, Member of the Management Board,
- Martin Hornig, Member of the Management Board,
- Zdenko Matak, Member of the Management Board.

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

Members of the Supervisory Board are:

- Willibald Cernko, President of the Supervisory Board,
- Sava Ivanov Dalbokov, Deputy President of the Supervisory Board,
- Franz Kerber, Member of the Supervisory Board,
- Hannes Frotzbacher, Member of the Supervisory Board,
- Judit Agnes Havasi, Member of the Supervisory Board,
- Renate Veronika Ferlitz, Member of the Supervisory Board,
- Nikolai Leo de Arnoldi, Member of the Supervisory Board.

Corporate Governance Statement (continued)

The Supervisory Board conducts its activities at the Meetings. Summoning and holding meetings and process of making decisions and authorizations are prescribed by the Rules of procedure of the Supervisory Board. Supervisory Board has five (5) committees as follows: Audit Committee, Credit Committee, Remuneration Committee, Nomination Committee and Risk Committee which are established with the aim of making competent and independent judgements on all issues placed in their jurisdiction by the Bank's internal acts and the relevant regulations. Committee members are appointed from the members of the Supervisory Board and every Committee has three (3) members.

Audit Committee:

- Sava Ivanov Dalbokov, President
- Hannes Frotzbacher, Member
- Judit Ágnes Havasi , Member

Remuneration Committee:

- Willibald Cernko, President
- Judit Ágnes Havasi, Member
- Sava Ivanov Dalbokov, Member

Nomination Committee:

- Willibald Cernko, President
- Judit Ágnes Havasi, Member
- Sava Ivanov Dalbokov, Member

Credit Committee:

- Hannes Frotzbacher, President
- Willibald Cernko, Member
- Renate Veronika Ferlitz, Member

Risk Committee:

- Hannes Frotzbacher, President
- Willibald Cernko, Member
- Renate Ferlitz, Member

Financial Statements for the year ended 31 December 2018

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.

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

Slađana Jagar
Member

Martin Hornig
Member

Borislav Centner
Member

Zdenko Matak
Member

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

25 March 2019

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 give a true and fair view of the financial position of Erste&Steiermärkische Bank d.d. (the "Bank") and its subsidiaries (together the "Group") as at 31 December 2018, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

Our opinion is consistent with our additional report to the Audit Committee dated 25 March 2019.

What we have audited

The separate and consolidated financial statements of the Bank and the Group, which comprise:

- separate and consolidated statements of profit or loss for the year ended 31 December 2018;
- separate and consolidated statements of other comprehensive income for the year ended 31 December 2018;
- separate and consolidated statements of financial position as at 31 December 2018;
- separate and consolidated statements of changes in equity for the year then ended;
- 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

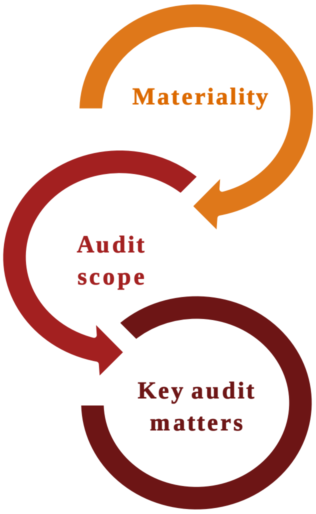
We are independent of the Bank and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014, and furthermore, we have not provided any non-audit services to the Bank and the Group in the period from 1 January 2018 to 31 December 2018.

PricewaterhouseCoopers d.o.o., Heinzelova 70, 10000 Zagreb, Croatia
T: +385 (1) 6328 888, F:+385 (1)6111 556, www.pwc.hr

Our audit approach

Overview



- Overall materiality for the financial statements of the Bank as a whole: HRK 51 million, which represents 5% of pre-tax result from continuing operations.
- Overall materiality for the financial statements of the Group as a whole: HRK 64 million, which represents 5% of pre-tax result from continuing operations.

- Our audit scope addressed 98% of the Group's absolute value of pre-tax result from continuing operations and 99% of total assets.

- Estimate of the credit loss allowances for loans and advances to customers (the Bank and the Group)

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 materiality for the financial statements as a whole	The Bank: HRK 51 million The Group: HRK 64 million
How we determined it	The Bank: 5% of pre-tax result from continuing operations The Group: 5% of pre-tax result from continuing operations

Rationale for the materiality benchmark applied	We chose pre-tax result from continuing operations as the benchmark because, in our view, it is the benchmark against which the performance of the Bank and the Group is commonly measured by users and shareholders, and is a generally acceptable benchmark.

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Estimate of credit loss allowances for loans and advances to customers (the Bank and the Group) Refer to note *Impairment of financial assets under IFRS 9* in Section B *Significant accounting policies*, note c) *Accounting and measurement methods*. As at 31 December 2018, the Bank and Group had credit loss allowances for loans and advances at amortised cost to customers of HRK 2.8 billion and HRK 3.0 billion, respectively. IFRS requires management to make judgments about the future and various items in the separate and consolidated financial statements are subject to estimation uncertainty. The estimates required for credit loss allowances for loans and advances to customers are significant estimates. The identification of loans that are deteriorating, the assessment of significant increase in credit risk, forecasts of future cash flows and the determination of the expected credit losses of loans to customers are all inherently uncertain. 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,	Our audit approach was the following: • We updated our understanding of the expected credit loss calculation methodology applied by the Bank and the Group and assessed its compliance with the requirements of IFRS 9. • 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 customer ratings and collateral valuation. • We assessed the process of incorporating the forward-looking information in the estimates. • We analysed sensitivities and impacts of IFRS 9 specific model aspects. • We evaluated whether key components of expected credit loss calculation are correctly incorporated in the models by reviewing steering tables. • We tested, on a sample basis the correct stage allocation according to the relevant policies. • We tested, on a sample bases, the adequacy of individual loan loss allowances, assessing the forecasted scenarios and the estimated expected cash flows. Our audit did not lead to any material adjustments to the credit loss allowances for loans and advances to customers at 31 December 2018.

expected credit losses are collectively assessed as well.

For defaulted loans considered to be significant at customer level, credit loss allowances are determined on an individual basis. These loss allowances are calculated considering scenario probabilities, expected cash flows as well as expected proceeds from the realization of collateral (where applicable).

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 of the nature of the judgements and assumptions that management are required to make.

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 Management Report and Corporate Governance Statement

Management is responsible for the other information. The other information comprises the Annual Report of the Bank and the Group, which includes the Management Report and Corporate Governance Statement, but does not include the separate and consolidated financial statements and our independent auditor's report thereon.

Our opinion on the separate and consolidated financial statements does not cover the other information, including the Management Report and Corporate Governance Statement.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and 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 includes the disclosures required by 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 also required to report if we have identified material misstatements in the Management Report and Corporate Governance Statement. We have nothing to report in this respect.

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 in 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 independent 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, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate and 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 representing a total period of uninterrupted engagement appointment of two years.

Other Legal and Regulatory Requirements

Based on the Decision on the structure and content of annual financial statements of credit institutions (Official Gazette 42/18), "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 2018, Statements of financial position of the Bank and the Group as at 31 December 2018, 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 financial statements, but contain information required by the Decision. The financial information in the Forms is based on the Bank's and the Group's financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union as presented on pages 69 to 270, 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
25 March 2019

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 2018

Statement of Profit or Loss

in HRK million		GROUP		BANK	
	Notes	2017	2018	2017	2018
Net interest income	1	2,072	2,073	1,657	1,652
Interest income		2,603	2,460	2,091	1,960
Other similar income		85	70	85	72
Interest expense		(540)	(381)	(443)	(305)
Other similar expenses		(76)	(76)	(76)	(75)
Net fee and commission income	2	715	734	445	465
Fee and commission income		937	968	610	642
Fee and commission expenses		(222)	(234)	(165)	(177)
Dividend income	3	1	1	25	21
Net trading and fair value result	4	198	221	201	204
Gains/losses from financial instruments measured at fair value through profit or loss	5	x	4	x	3
Net result from equity method investments		10	11	-	-
Rental income from investment properties & other operating leases	6	147	117	2	2
Personnel expenses	7	(668)	(701)	(487)	(504)
Other administrative expenses	7	(644)	(648)	(467)	(478)
Depreciation and amortisation	7	(228)	(228)	(58)	(75)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	8	5	x	3	x
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	10	x	28	x	14
Net impairment loss on financial assets not measured at fair value through profit or loss	9	(866)	x	(440)	x
Impairment result from financial instruments	11	x	(246)	x	(199)
Other operating result	12	(102)	(81)	(70)	(79)
Pre-tax result from continuing operations		**640**	**1,285**	**811**	**1,026**
Income tax	13	(183)	(254)	(162)	(196)
Net result for the period		**457**	**1,031**	**649**	**830**
Net result attributable to non-controlling interests		(77)	23	-	-
Net result attributable to owners of the parent		**534**	**1,008**	**-**	**-**
Earnings per share					
Basic and diluted (HRK)	51	**31.42**	**59.33**	**-**	**-**

*x - position not applicable for this reporting period due to implementation of new standards

Statement of Other Comprehensive Income

in HRK million	GROUP		BANK	
	2017	2018	2017	2018
Net result for the period	**457**	**1,031**	**649**	**830**
Other comprehensive income				
Items that may not be reclassified to profit or loss				
Remeasurement of net liability of defined pension plans	-	3	-	1
Fair value reserve of equity instruments	x	22	x	20
Own credit risk reserve	x	-	x	-
Income taxes relating to items that may not be reclassified	-	(4)	-	(4)
Total	**-**	**21**	**-**	**17**
Items that may be reclassified to profit or loss				
Available for sale reserve (including currency translation)	(20)	x	(21)	x
Gain/(loss) during the period	(19)	x	(22)	x
Reclassification adjustments	(1)	x	1	x
Fair value reserve of debt instruments	x	(72)	x	(53)
Gain/(loss) during the period	x	(47)	x	(42)
Reclassification adjustments	x	(28)	x	(14)
Credit loss allowances	x	3	x	3
Currency translation	(2)	(6)	-	-
Gain/(loss) during the period	(2)	(6)	-	-
Reclassification adjustments	-	-	-	-
Income taxes relating to items that may be reclassified	4	6	4	4
Gain/(loss) during the period	4	6	4	4
Reclassification adjustments	-	-	-	-
Total	**(18)**	**(72)**	**(17)**	**(49)**
Total other comprehensive income	**(18)**	**(51)**	**(17)**	**(32)**
Total comprehensive income	**439**	**980**	**632**	**798**
Total comprehensive income attributable to non-controlling interests	(77)	23	-	-
Total comprehensive income attributable to owners of the parent	**516**	**957**	**-**	**-**

*x - position not applicable for this reporting period due to implementation of new standards

II. Statement of Financial Position as at 31 December 2018

in HRK million		GROUP		BANK	
	Notes	31 December 2017	31 December 2018	31 December 2017	31 December 2018
Assets					
Cash and cash balances	14	4,639	4,954	4,170	4,383
Financial assets - held for trading		247	278	250	279
Derivatives	15	52	33	55	34
Other trading assets	16	195	245	195	245
Non-trading financial assets at fair value through profit or loss		x	165	x	23
Pledged as collateral	40	x	93	x	-
Equity instruments	17	x	11	x	9
Debt securities	17	x	154	x	14
Financial assets - available for sale	18	8,018	x	7,468	x
thereof pledged as collateral	40	250	x	-	x
Financial assets at fair value through other comprehensive income		x	8,602	x	7,977
Pledged as collateral	40	x	323	x	-
Equity instruments	19	x	111	x	102
Debt securities	19	x	8,491	x	7,875
Financial assets - held to maturity	20	1,878	x	1,391	x
Loans to and receivables from credit institutions	22	5,233	x	5,132	x
Loans to and receivables from customers	23	43,297	x	36,512	x
Financial assets at amortised cost		x	49,678	x	46,115
Pledged as collateral		x	-	x	-
Debt securities	24	x	1,273	x	1,020
Loans and advances to banks	24	x	5,228	x	5,309
Loans and advances to customers	24	x	43,177	x	39,786
Finance lease receivables	25	x	2,080	x	-
Property and equipment	29	1,262	1,245	583	669
Investment properties	29	53	49	20	17
Intangible assets	30	393	372	111	120
Investments in subsidiaries	28	-	-	951	989
Investments in associates	28	60	60	38	38
Current tax assets	31	17	10	-	-
Deferred tax assets	31	234	219	88	87
Trade and other receivables	26	x	1,425	x	309
Other assets	32	594	554	492	428
Total assets		**65,925**	**69,691**	**57,206**	**61,434**
Liabilities and equity					
Financial liabilities - held for trading		52	27	52	27
Derivatives	15	52	27	52	27
Financial liabilities measured at amortised cost		56,632	59,687	49,235	52,937
Deposits from banks	33	11,025	8,931	6,394	5,082
Deposits from customers	33	44,374	49,197	42,307	46,983
Debt securities issued	33	376	670	376	670
Other financial liabilities	33	857	889	158	202
Provisions	34	267	205	212	166
Current tax liabilities	31	139	106	132	81
Deferred tax liabilities	31	2	2	-	-
Other liabilities	35	627	603	433	413
Total liabilities		**57,719**	**60,630**	**50,064**	**53,624**
Subscribed capital		1,698	1,698	1,698	1,698
Capital reserves and share premium		1,887	1,887	1,887	1,887
Retained earnings		4,221	5,083	3,342	4,021
Other reserves		244	223	215	204
Equity attributable to owners of the parent		8,050	8,891	-	7,810
Equity attributable to non-controlling interests		156	170	-	-
Total equity	36	**8,206**	**9,061**	**7,142**	**7,810**
Total liabilities and equity		**65,925**	**69,691**	**57,206**	**61,434**

*x - position not applicable for this reporting period due to implementation of new standards

III. Statement of Changes in Equity

											GROUP
	Subscribed capital	Additional paid-in capital	Retained earnings	Available for sale reserve	Fair value reserve	Currency translation reserve	Remeasurement of defined benefit plans	Income tax	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
As of 1 January 2018	**1,698**	**1,887**	**4,221**	**303**	**-**	**(3)**	**(2)**	**(54)**	**8,050**	**156**	**8,206**
Changes due to initial application of IFRS 9 (Note B)	-	-	(29)	(303)	331	-	-	2	1	-	1
Restated as of 1 January 2018	**1,698**	**1,887**	**4,192**	**x**	**331**	**(3)**	**(2)**	**(52)**	**8,051**	**156**	**8,207**
Dividends paid	-	-	(160)	x	-	-	-	-	(160)	(2)	(162)
Changes in scope of consolidation and ownership interest	-	-	(15)	x	-	-	-	-	(15)	(7)	(22)
Other changes	-	-	58	x	-	-	-	-	58	-	58
Total comprehensive income	**-**	**-**	**1,008**	**x**	**(50)**	**(6)**	**3**	**2**	**957**	**23**	**980**
Net result for the period	-	-	1,008	x	-	-	-	-	1,008	23	1,031
Other comprehensive income	-	-	-	x	(50)	(6)	3	2	(51)	-	(51)
Change from remeasurement of defined benefit plans	-	-	-	x	-	-	3	(1)	2	-	2
Change in fair value reserve	-	-	-	x	(50)	-	-	3	(47)	-	(47)
Change in currency translation reserve	-	-	-	x	-	(6)	-	-	(6)	-	(6)
As of 31 December 2018	**1,698**	**1,887**	**5,083**	**x**	**281**	**(9)**	**1**	**(50)**	**8,891**	**170**	**9,061**
As of 1 January 2017	**1,698**	**1,887**	**3,906**	**323**	**x**	**(1)**	**(2)**	**(58)**	**7,753**	**235**	**7,988**
Dividends paid	-	-	(219)	-	x	-	-	-	(219)	(2)	(221)
Total comprehensive income	-	-	534	(20)	x	(2)	-	4	516	(77)	439
Net result for the period	-	-	534	-	x	-	-	-	534	(77)	457
Other comprehensive income	-	-	-	(20)	x	(2)	-	4	(18)	-	(18)
As of 31 December 2017	**1,698**	**1,887**	**4,221**	**303**	**x**	**(3)**	**(2)**	**(54)**	**8,050**	**156**	**8,206**

*x - position not applicable for this reporting period due to implementation of new standards

III. Statement of Changes in Equity (continued)

BANK

	Subscribed capital	Additional paid-in capital	Retained earnings	Available for sale reserve	Fair value reserve	Currency translation reserve	Remeasurement of defined benefit plans	Income tax	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
As of 1 January 2018	**1,698**	**1,887**	**3,342**	**261**	**-**	**-**	**1**	**(47)**	**-**	**-**	**7,142**
Changes due to initial application of IFRS 9 (Note B)	-	-	(28)	(261)	280	-	-	2	-	-	(7)
Restated as of 1 January 2018	**1,698**	**1,887**	**3,314**	**x**	**280**	**-**	**1**	**(45)**	**-**	**-**	**7,135**
Dividends paid	-	-	(160)	x	-	-	-	-	-	-	(160)
Other changes	-	-	37	x	-	-	-	-	-	-	37
Total comprehensive income	**-**	**-**	**830**	**x**	**(33)**	**-**	**1**	**-**	**-**	**-**	**798**
Net result for the period	-	-	830	x	-	-	-	-	-	-	830
Other comprehensive income	-	-	-	x	(33)	-	1	-	-	-	(32)
Change from remeasurement of defined benefit plans	-	-	-	x	-	-	1	-	-	-	1
Change in fair value reserve	-	-	-	x	(33)	-	-	-	-	-	(33)
As of 31 December 2018	**1,698**	**1,887**	**4,021**	**x**	**247**	**-**	**2**	**(45)**	**-**	**-**	**7,810**
As of 1 January 2017	**1,698**	**1,887**	**2,912**	**282**	**x**	**-**	**1**	**(51)**	**-**	**-**	**6,729**
Dividends paid	-	-	(219)	-	x	-	-	-	-	-	(219)
Total comprehensive income	-	-	649	(21)	x	-	-	4	-	-	632
Net result for the period	-	-	649	-	x	-	-	-	-	-	649
Other comprehensive income	-	-	-	(21)	x	-	-	4	-	-	(17)
As of 31 December 2017	**1,698**	**1,887**	**3,342**	**261**	**x**	**-**	**1**	**(47)**	**-**	**-**	**7,142**

*x - position not applicable for this reporting period due to implementation of new standards

IV. Statement of Cash Flow for the year ended 31 December 2018

in HRK million	GROUP		BANK	
	2017	2018	2017	2018
Net result for the period	**457**	**1,031**	**649**	**830**
Non-cash adjustments for items in net profit/loss for the year				
Depreciation, amortisation, impairment and reversal of impairment, revaluation of assets	262	271	107	119
Allocation to and release of provisions (including risk provisions)	874	249	436	209
Gains/(losses) from the sale of assets	3	2	(2)	(2)
Income tax expense	183	254	162	196
Other adjustments	(2)	(1)	6	-
Changes in assets and liabilities from operating activities after adjustment for non-cash components	**1,320**	**775**	**709**	**522**
Financial assets - held for trading	(195)	195	(195)	195
Non-trading financial assets at fair value through profit or loss				
Equity instruments	x	(3)	x	(3)
Debt securities	x	(1)	x	1
Financial assets - available for sale	(48)	x	(75)	x
Financial assets at fair value through other comprehensive income: debt securities	x	1,273	x	1,259
Financial assets - held to maturity	(240)	x	(269)	x
Loans to and receivables from credit institutions	505	x	593	x
Loans to and receivables from customers	(464)	x	(693)	x
Financial assets at amortised cost				
Debt securities	x	97	x	94
Loans and advances to banks	x	(638)	x	(817)
Loans and advances to customers	x	(3,238)	x	(3,719)
Finance lease receivables	x	(335)	x	-
Derivatives	(5)	(6)	(3)	(4)
Other assets from operating activities	(11)	(193)	24	(181)
Financial liabilities measured at amortised cost				
Deposits from banks	(639)	(2,085)	53	(1,313)
Deposits from customers	1,028	4,824	1,009	4,675
Debt securities issued	(548)	294	(548)	294
Other financial liabilities	69	(25)	4	(3)
Other liabilities from operating activities	46	(38)	55	(21)
Finance lease liabilities	x	-	x	-
Cash flow from operating activities	**1,275**	**1,927**	**1,313**	**1,809**
Proceeds from disposal				
Financial assets at fair value through other comprehensive income: equity instruments	x	14	x	14
Property and equipment, intangible assets and investment properties	85	60	19	8
Acquisition of				
Financial assets at fair value through other comprehensive income: equity instruments	x	-	x	-
Property and equipment, intangible assets and investment properties	(278)	(276)	(97)	(128)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	(14)	-	-	(81)
Investments in associates	(41)	-	(29)	-
Cash flow from investing activities	**(248)**	**(202)**	**(107)**	**(187)**
Dividends paid to equity holders of the parent	(219)	(160)	(219)	(160)
Dividends paid to non-controlling interests	(2)	-	-	-
Cash flow from financing activities	**(221)**	**(160)**	**(219)**	**(160)**
Cash and cash equivalents at beginning of period	**4,539**	**5,344**	**3,887**	**4,874**
Cash flow from operating activities	1,257	1,927	1,313	1,809
Cash flow from investing activities	(248)	(202)	(107)	(187)
Cash flow from financing activities	(221)	(160)	(219)	(160)
Cash and cash equivalents at end of period[1)]	**5,345**	**6,909**	**4,874**	**6,336**
Cash flows related to taxes, interest and dividends (included in cash flow from operating activities)				
Payments for income tax	(61)	(265)	(20)	(246)
Interest received	2,593	2,451	2,152	2,088
Dividends received	9	10	24	20
Interest paid	(622)	(444)	(545)	(360)

*x - position not applicable for this reporting period due to implementation of new standards

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 12).

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 Macedonia and Republic of Slovenia.

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
Sava Ivanov Dalbokov	Deputy President
Mag. Franz Kerber	Member
Hannes Frotzbacher	Member
Dr. Judit Ágnes Havasi	Member
Mag. Renate Veronika Ferlitz	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
Zdenko Matak	Member
Martin Hornig	Member

A. GENERAL INFORMATION (CONTINUED)

PROCURATORS:

The Bank at the moment does not have procurators.

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

DEFINITION OF THE CONSOLIDATED GROUP

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

Name of subsidiary	Note	Ownership interest	Principal activity	Registered office
Erste Nekretnine d.o.o.	28	100%	Real estate business	Ivana Lučića 2A, Zagreb
Erste Bank AD Podgorica, Montenegro	28	100%	Credit institution	Arsenija Boljevića 2A, Podgorica, Montenegro
Erste Card Club d.o.o.	28	100%	Financial intermediation and services	Ulica Frana Folnegovića 6, Zagreb
Erste Card d.o.o. Slovenia	28	100%	Financial intermediation and services	Dunajska cesta 129, Ljubljana, Slovenija
Diners Club International Mak d.o.o.e.l., Skopje	28	100%	Financial intermediation and services	Kej 13-ti Noemvri, 2/2 GTC, Skopje
Erste Factoring d.o.o.	28	100%	Accounts receivables repurchase	Ivana Lučića 2A, Zagreb
Erste&Steiermärkische S-Leasing d.o.o.	28	50%	Financial and operating leasing	Zelinska 3, Zagreb
Izbor Nekretnina d.o.o.	28	100%	Real estate management and lease	Ivana Lučića 2A, Zagreb
Erste Group IT HR d.o.o.	28	80%	IT engineering	Jurja Haulika 19/A, Bjelovar
Name of associate				
S Immorent Zeta d.o.o.	28	49%	Real estate business	Ivana Lučića 2A, Zagreb
Erste d.o.o.	28	45.86%	Management company for obligatory and voluntary pension fund	Ivana Lučića 2A, Zagreb

Acquisitions

On 9 March 2017 subsidiary Erste Card Club d.o.o., Zagreb acquired 100 % of stake ownership in the companies Diners Club International Belgrade d.o.o., Belgrade, Republic of Serbia for cash consideration in the amount of HRK 35 million and Diners Club International MAK d.o.o.e.l., Skopje, Republic of Macedonia for cash consideration in the amount of HRK 15 million. On 14 March 2017 re-capitalization of the Diners Club International Belgrade d.o.o. was carried out in the amount of HRK 4 million.

After the acquisition, material irregularities in the financial operations of the Diners Club International Belgrade d.o.o. were revealed and the insolvency procedure against the Company has been opened on 16 June 2017 and is still going on. This cost of acquisition and re-capitalisation amount was impaired in full amount in 2017.

A. GENERAL INFORMATION (CONTINUED)

For acquisition in Diners Club International MAK d.o.o.e.l. initial goodwill was recognized in the amount of HRK 4 million that was 100 % impaired. Detailed information is noted in Accounting and measurement methods under Business combination and Goodwill.

On 11 August 2018 the Bank acquired additional 25.004 % of shares in the company Erste Factoring d.o.o. increasing its ownership to 100% for cash consideration in the amount of HRK 21 million.
Before acquisition re-capitalization of the Erste Factoring d.o.o. was carried out in the amount of HRK 60 million.

Capital increase

At the beginning 2017 the Bank increase capital in associate Immokor Buzin in amount of HRK 18 million and sold whole investment for EUR 1. In December 2017 Bank also increase capital in associate Immorent Zeta in amount of HRK 12 million. For both investments in associates capital increase was immediately impaired in Statement of profit or loss.

B. SIGNIFICANT ACCOUNTING POLICIES

a) BASIS OF PREPARATION

The financial statements were prepared in accordance with applicable 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 accounting policies are consistent except for the impact of the implementation of IFRS 9 and IFRS 15.

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

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

Financial statement positions marked with x are not applicable for relevant reporting period due to implementation of new standard.

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.

b) BASIS 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.

Subsidiaries

Subsidiaries are entities over which the Bank has control.
All entities directly or indirectly controlled by the Bank are consolidated in the Group financial statements on the basis of their annual accounts as of 31 December 2018, 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 Bank 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 income and the consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal.

b) BASIS OF CONSOLIDATION (continued)

The financial statements of the Bank's subsidiaries are prepared for the same reporting year as that of the Bank and using consistent accounting policies. All intragroup transactions, balances, income and expenses 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 income, 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.

Investments in associates

Associates are entities over which the Bank 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, significant influence is presumed to mean an ownership interest of between 20% and 50%.

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 income.

c) ACCOUNTING AND MEASUREMENT METHODS

IFRS 9 Financial instruments

As of 1 January 2018, the Group has adopted IFRS 9 'Financial Instruments' which replaces IAS 39 'Financial Instruments – Recognition and Measurement'. IFRS 9 was issued by the IASB in July 2014 and endorsed by the EU in November 2016. This resulted with changes in accounting policies for classification and measurement of financial assets and financial liabilities, as well as for impairment of financial assets. IFRS 9 requirements also significantly amended IFRS 7 'Financial Instruments: Disclosures' due to which disclosures of information on financial instruments have been adapted to the new requirements.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative amounts for the previous financial year 2017. As a result, the comparative period columns in the 2018 financial statements reflect the structure used in 2017 financial statements. Also, the comparative period disclosures in the notes are based on the original classification and measurement requirements of IAS 39 (as superseded by IFRS 9) and IFRS 7 (before the consequential amendments resulting from IFRS 9). Due to this fact, accounting policies relevant for financial instruments in accordance with IAS 39 are also disclosed.

The financial impact of IFRS 9 adoption is detailed below.

i. Classification and measurement of financial instruments

The table below presents changes between measurement categories and carrying amounts of financial assets and financial liabilities under IAS 39 and IFRS 9 as at 1 January 2018. To illustrate the transition impact, the effects are disclosed in respect of original balance sheet positions reflecting IAS 39 requirements.

						GROUP
		Original classification under IAS 39				
in HRK million	Comments	Portfolio	Measurement method	New classification under IFRS 9	IAS 39 carrying amount 31 Dec 17	IFRS 9 carrying amount 1 Jan 18
Financial assets						
Cash and cash balances		Loans and receivables	AC	Amortised cost	4,639	4,637
Derivatives		Held-for-trading	FVPL	Held-for-trading (FVPL)	52	52
Other trading assets		Held-for-trading	FVPL	Held-for-trading (FVPL)	195	195
Loans and receivables to credit institutions		Loans and receivables	AC	Amortised cost	5,233	5,145
		Loans and receivables	AC	Amortised cost	41,549	41,606
Loans and receivables to customers		Loans and receivables	Finance Lease	Finance Lease	1,748	1,746
Financial assets - available for sale (Debt securities)		AFS	FVOCI	Mandatorily at FVPL	153	153
				FVOCI	7,756	7,756
Financial assets - available for sale (Equity instruments)		AFS	FVOCI	FVPL	5	8
				FVOCI	104	104
Financial assets - held to maturity		Held-to-maturity	AC	Amortised cost	1,377	1,370
				FVOCI	501	526
Total financial assets					**63,312**	**63,298**
Financial liabilities						
Derivatives		Held-for-trading	FVPL	Held-for-trading (FVPL)	52	52
Financial liabilities measured at amortised cost		Amortised cost	AC	Amortised cost	56,632	56,632
Total financial liabilities					**56,684**	**56,684**

IFRS 9 Financial instruments (continued)

i. Classification and measurement of financial instruments (continued)

						BANK
		Original classification under IAS 39				
in HRK million	Com-ments	Portfolio	Measurement method	New classification under IFRS 9	IAS 39 carrying amount 31 Dec 17	IFRS 9 carrying amount 1 Jan 18
Financial assets						
Cash and cash balances		Loans and receivables	AC	Amortised cost	4,170	4,169
Derivatives		Held-for-trading	FVPL	Held-for-trading (FVPL)	55	55
Other trading assets		Held-for-trading	FVPL	Held-for-trading (FVPL)	195	195
Loans and receivables to credit institutions		Loans and receivables	AC	Amortised cost	5,132	5,047
Loans and receivables to customers		Loans and receivables	AC	Amortised cost	36,512	36,567
Financial assets - available for sale (Debt securities)		AFS	FVOCI	Mandatorily at FVPL	15	15
				FVOCI	7,352	7,352
Financial assets - available for sale (Equity instruments)		AFS	FVOCI	FVPL	5	5
				FVOCI	96	96
Financial assets - held to maturity		Held-to-maturity	AC	Amortised cost	1,123	1,114
				FVOCI	268	282
Total financial assets					**54,923**	**54,897**
Financial liabilities						
Derivatives		Held-for-trading	FVPL	Held-for-trading (FVPL)	52	52
Financial liabilities measured at amortised cost		Amortised cost	AC	Amortised cost	49,235	49,235
Total financial liabilities					**49,287**	**49,287**

IFRS 9 Financial instruments (continued)

ii. Reconciliation of carrying amounts of financial assets based on measurement categories

							GROUP
in HRK million	Com-ments	IAS 39 carrying amount 31 Dec 17	Reclassi-fications	Remeas-urement	IFRS 9 carrying amount 1 Jan 18	Retained earnings effects	OCI effects
Amortised cost	a	**55,047**	**-**	**-**	**55,047**	**-**	**-**
Additions:							
from IAS 39 FVOCI (AFS) – debt securities	b	-	-	(9)	(9)	-	(9)
from IAS 39 AC (L&R, HTM) (impairment remeasurement)		-	-	(34)	(34)	(34)	-
Subtractions:							
to IFRS 9 FVTOCI (IAS 39: HTM)		-	(500)	-	(500)	-	-
Total change		**-**	**(500)**	**(43)**	**(543)**	**(34)**	**(9)**
Total - amortised cost	d	**55,047**	**(500)**	**(43)**	**54,504**	**(34)**	**(9)**
Fair value through other comprehensive income		**8,018**	**-**	**-**	**8,018**	**-**	**-**
Fair value through other comprehensive income – debt securities	e	**7,909**	**-**	**-**	**7,909**	**-**	**-**
Additions:							
from IAS 39 AC (HTM)	c	-	500	26	526	(2)	28
from IAS 39 AFS (impairment remeasurement)		-	-	-	-	(26)	26
Subtractions:							
to IFRS 9 Mandatorily at FVPL (IAS 39: AFS)	f	-	(153)		(153)	-	-
Subtotal change– debt securities at FVOCI		**-**	**347**	**26**	**373**	**(28)**	**54**
Fair value through other comprehensive income – equity instruments	e	**109**	**-**	**-**	**109**	**-**	**-**
Additions							
from IAS39 FVTPL		-	-	-	-	6	(6)
Subtractions:							
to IFRS 9 FVPL (IAS 39: AFS)	g	-	(5)	-	(5)	-	-
Subtotal change – equity instruments at FVOCI		**-**	**(5)**	**-**	**(5)**	**6**	**(6)**
Total change to fair value through other comprehensive income		**-**	**342**	**26**	**366**	**(22)**	**48**
Total – fair value through other comprehensive income		**8,018**	**342**	**26**	**8,386**	**(22)**	**48**
Fair value through profit or loss	h	**247**	**-**	**-**	**247**	**-**	**-**
Additions:							
from IAS 39 FVOCI (AFS) (IFRS 9: Mandatorily at FVPL) – debt securities	f	-	153	-	153	8	(8)
from IAS 39 FVOCI (AFS) – equity instruments	g	-	8	-	8	3	(3)
Total change		**-**	**161**	**-**	**161**	**11**	**(11)**
Total – fair value through profit or loss	i	**247**	**161**	**-**	**408**	**11**	**(11)**
Total – financial assets	j	**63,312**	**2**	**(17)**	**63,298**	**(45)**	**28**

IFRS 9 Financial instruments (continued)

ii. Reconciliation of carrying amounts of financial assets based on measurement categories (continued)

							BANK
in HRK million	Com-ments	IAS 39 carrying amount 31 Dec 17	Reclassi-fications	Remeas-urement	IFRS 9 carrying amount 1 Jan 18	Retained earnings effects	OCI effects
Amortised cost	a	**47,205**	**-**	**-**	**47,205**	**-**	**-**
Additions:							
from IAS 39 FVOCI (AFS) – debt securities	b	-	-	(8)	(8)	-	(8)
from IAS 39 AC (L&R, HTM) (impairment remeasurement)		-	-	(32)	(32)	(32)	-
Subtractions:							
to IFRS 9 FVTOCI (IAS 39: HTM)		-	(268)	-	(268)	-	-
Total change		**-**	**(268)**	**(40)**	**(308)**	**(32)**	**(8)**
Total - amortised cost	d	**47,205**	**(268)**	**(40)**	**46,897**	**(32)**	**(8)**
Fair value through other comprehensive income		**7,468**	**-**	**-**	**7,468**	**-**	**-**
Fair value through other comprehensive income – debt securities	e	**7,366**	**-**	**-**	**7,366**	**-**	**-**
Additions:							
from IAS 39 AC (HTM)	c	-	268	14	282	(2)	16
from IAS 39 AFS (impairment remeasurement)		-	-	-	-	(23)	23
Subtractions:							
to IFRS 9 Mandatorily at FVPL (IAS 39: AFS)	f	-	(15)		(15)	-	-
Subtotal change– debt securities at FVOCI		**-**	**253**	**14**	**267**	**(25)**	**39**
Fair value through other comprehensive income – equity instruments	e	**102**	**-**	**-**	**102**	**-**	**-**
Additions							
from IAS39 FVTPL		-	-	-	-	6	(6)
Subtractions:							
to IFRS 9 FVPL (IAS 39: AFS)	g	-	(5)	-	(5)	-	-
Subtotal change – equity instruments at FVOCI		**-**	**(5)**	**-**	**(5)**	**6**	**(6)**
Total change to fair value through other comprehensive income		**-**	**248**	**14**	**262**	**(19)**	**33**
Total – fair value through other comprehensive income		**7,468**	**248**	**14**	**7,730**	**(19)**	**33**
Fair value through profit or loss	h	**250**	**-**	**-**	**250**	**-**	**-**
Additions:							
from IAS 39 FVOCI (AFS) (IFRS 9: Mandatorily at FVPL) – debt securities	f	-	15	-	15	3	(3)
from IAS 39 FVOCI (AFS) – equity instruments	g	-	5	-	5	3	(3)
Total change		**-**	**20**	**-**	**20**	**6**	**(6)**
Total – fair value through profit or loss	i	**250**	**20**	**-**	**270**	**6**	**(6)**
Total – financial assets	j	**54,923**	**-**	**(26)**	**54,897**	**(45)**	**19**

Note: Remeasurement includes effects of both revaluation and impairment changes.

(a) The amount includes IAS 39 balance sheet line items with following carrying amounts:
- cash and cash balances: HRK 4,639 million for the Group and HRK 4,170 million for the Bank;
- loans and receivables to credit institutions: HRK 5,233 million for the Group and HRK 5,132 million for the Bank;
- loans and receivables to customers: HRK 43,297 million for the Group and HRK 36,512 million for the Bank; and
- financial assets – held to maturity: HRK 1,878 million for the Group and HRK 1,391 million for the Bank.

(b) Debt securities that were classified as available for sale and measured at FVOCI under IAS 39 and that are part of the portfolios connected to asset and liability management activities were reclassified to the amortised cost measurement category under IFRS 9 due to the business model of holding the assets to collect contractual cash flows.

IFRS 9 Financial instruments (continued)

ii. Reconciliation of carrying amounts of financial assets based on measurement categories (continued)

(c) Debt securities previously classified as held to maturity and measured at amortised cost under IAS 39 were reclassified to the FVOCI measurement category under IFRS 9 due to the application of the business model whose objective is achieved by both holding the assets to collect the contractual cash flows and selling the assets.

(d) The IFRS 9 carrying amount as at 1 January 2018 includes IFRS 9 balance sheet line items with following carrying amounts:
- cash and cash balances HRK 4,637 million for the Group and HRK 4,169 million for the Bank;

Financial assets at amortised cost:
- debt securities: HRK 1,370 million for the Group and HRK 1,115 million for the Bank;
- loans and advance to banks: HRK 5,145 million for the Group and HRK 5,047 million for the Bank;
- loans and advances to customers: HRK 39,656 million for the Group and HRK 36,408 million for the Bank;
- finance lease receivables: HRK 1,746 million for the Group and
- trade and other receivables: HRK 1,950 million for the Group and HRK 158 million for the Bank

(e) The carrying amount of debt securities at FVOCI (AFS) under IAS 39 compared to the amount presented in the 2017 financial statements, is increased by investments in funds with a carrying amount of HRK 153 million for the Group and HRK 15 million for the Bank that until 2017 were treated as equity instruments in the financial statements. Emphasis was put on their economic substance of being equity security-like. From 2018, Group has started to classify them as debt instruments. Preference is put on the puttable feature due to which they meet the definition of a liability in accordance with IAS 32. Thus, they are debt instruments both from the issuer and the investor perspective. In the transition disclosures they are treated as debt instruments also in respect of the IAS 39 carrying amount.
As a result, the reclassification between the debt and equity instruments also impacted the carrying amount of equity instruments at FVOCI (AFS) under IAS 39 which, compared to the amount presented in the 2017 financial statements, is decreased by the above amounts in the transition disclosures.

(f) The cases of reclassifications of debt securities from the available for sale category measured at FVOCI under IAS 39 to the mandatorily at FVPL category under IFRS 9 were investments in funds with a carrying amount of HRK 153 million for the Group and HRK 15 million for the Bank reclassified due to the assets having contractual cash flows that are not SPPI.

(g) The reclassification from the available for sale category under IAS 39 to the fair value through profit or loss category under IFRS 9 relates to those investments in equity instruments that are not held for trading and that were not designated as measured at FVOCI upon the transition to IFRS 9.

(h) The amount includes IAS 39 balance sheet line items with following carrying amounts:
- derivatives – held for trading: HRK 52 million for the Group and HRK 55 million for the Bank and
- other trading assets: HRK 195 million for the Group and for the Bank

(i) The IFRS 9 carrying amount as at 1 January 2018 includes IFRS 9 balance sheet line items with following carrying amounts:
- derivatives – held for trading: HRK 52 million for the Group and HRK 55 million for the Bank;
- other trading assets: HRK 195 million for the Group and for the Bank;

Non-trading financial assets at FVPL:
- equity instruments: HRK 8 million for the Group and HRK 5 million for the Bank and
- debt securities mandatorily at FVPL: HRK 153 million for the Group and HRK 15 million for the Bank.

(j) The total in the reclassification column amounts to HRK 2 million for the Group.

IFRS 9 Financial instruments (continued)

iii. Reconciliation of carrying amounts of financial liabilities based on measurement categories

							GROUP
in HRK million	Com-ments	IAS 39 carrying amount 31 Dec 17	Reclassi-fications	Remeas-urement	IFRS 9 carrying amount 1 Jan 18	Retained earnings effects	OCI effects
Amortised cost	a	56,632	-	-	56,632	-	-
Total – amortised cost		56,632	-	-	56,632	-	-
Fair value through profit or loss	b	52	-	-	52	-	-
Total – fair value through profit or loss		52	-	-	52	-	-
Total – financial liabilities		56,684	-	-	56,684	-	-

							BANK
in HRK million	Com-ments	IAS 39 carrying amount 31 Dec 17	Reclassi-fications	Remeas-urement	IFRS 9 carrying amount 1 Jan 18	Retained earnings effects	OCI effects
Amortised cost	a	49,235	-	-	49,235	-	-
Total – amortised cost		49,235	-	-	49,235	-	-
Fair value through profit or loss	b	52	-	-	52	-	-
Total – fair value through profit or loss		52	-	-	52	-	-
Total – financial liabilities		49,287	-	-	49,287	-	-

(a) The amount includes IAS 39 balance sheet line items with following carrying amounts:
- deposits from customers: HRK 44,374 million for the Group and amount of HRK 42,307 million for the Bank;
- deposits from banks: HRK 11,025 million for the Group and amount of HRK 6,394 million for the Bank;
- debt securities issued: HRK 376 million for the Group and the Bank.
- other financial liabilities: HRK 857 million for the Group and amount of HRK 158 million for the Bank;

(b) The amount includes IAS 39 balance sheet line items with following carrying amounts:
- derivatives – held for trading: HRK 52 million for the Group and amount of HRK 52 million for the Bank.

IFRS 9 Financial instruments (continued)

iv. Reconciliation of impairment allowances

The following table reconciles the amounts of loss allowances as at 31 December 2017 based on the IAS 39 incurred loss impairment model with the amounts as at 1 January 2018 subject to the IFRS 9 expected credit loss impairment model:

				GROUP
in HRK million	IAS 39/IAS 37 31 Dec 17	Reclassifications	Remeasurement	IFRS 9 1 Jan 18
Debt instruments at AC	(4,119)	-	(146)	(4,265)
Debt instruments at FVOCI	-	(23)	(9)	(32)
Finance lease	(26)	-	(3)	(29)
Off balance-sheet exposures (loan commitments and guarantees given)	(150)	-	58	(92)
Total	**(4,295)**	**(23)**	**(100)**	**(4,418)**

				BANK
in HRK million	IAS 39/IAS 37 31 Dec 17	Reclassifications	Remeasurement	IFRS 9 1 Jan 18
Debt instruments at AC	(3,121)	-	(165)	(3,286)
Debt instruments at FVOCI	-	(23)	(6)	(29)
Off balance-sheet exposures (loan commitments and guarantees given)	(122)	-	58	(64)
Total	**(3,243)**	**(23)**	**(113)**	**(3,379)**

The column Reclassifications relates to changes in impairment allowances due to differences in the scope of requirements between IFRS 9 and IAS 39. As a result, the increase in impairment due to reclassifications amounting to HRK 23 million for the Group and for the Bank;

- is affected by increase in loss allowances newly recognised on 1 January 2018 in respect of former AFS debt securities classified at FVOCI under IFRS 9. However this change did not impact the group equity upon transition to IFRS 9.

The column Remeasurement relates to changes in impairment allowances that were (under IAS 39 for financial assets and under IAS 37 for off-balance sheet credit risk bearing exposures) and continue to stay (under IFRS 9) in the impairment calculation scope. In this respect:

- lines 'Debt instruments at AC' and 'Finance lease' capture differences in loss allowances for debt instruments measured at amortised cost under IFRS 9 that were previously classified as loans and receivables and held-to-maturity in accordance with IAS 39;
- the line 'Debt instruments at FVOCI' reconciles the loss allowances for debt instruments measured at FVOCI under IFRS 9 that were classified as held-to-maturity.

Further, the increase in impairments amounting to HRK 100 million for the Group and amount of HRK 113 million for the Bank attributable to remeasurement includes an amount of HRK 60 million for the Group and amount of HRK 85 million for the Bank that did not impact the group equity upon transition to IFRS 9. This equity neutral amount consists of:

- an increase of HRK 181 for Group and HRK 175 million for Bank representing additional impairment allowances against credit-impaired loans ('Stage 3') in respect of which contractual interest receivables accruing after default were recorded outside the balance sheet up to 31 December 2017 but were re-integrated in the on-balance gross carrying amounts of the related assets as of 1 January 2018;
- a decrease of HRK 121 million for Group and HRK 90 million for Bank related to impairments of loans that were retrospectively identified as orignated credit-impaired upon transition to IFRS 9. These impairments were included in the gross carrying amounts of the related assets as of 1 January 2018 (irrespective of whether cured or still defaulted).

IFRS 9 Financial instruments (continued)

v. Deferred tax effects upon transition to IFRS 9

The following table presents the changes in the carrying amounts of Group's and Bank's deferred tax assets and liabilities due to the initial application of IFRS 9:

				GROUP
in HRK million	IAS 39 Closing balance 31 Dec 17	IFRS 9 Opening balance 1 Jan 18	Retained earnings effects	OCI effects
Deferred tax assets	234	195	(42)	3
Deferred tax liabilities	(2)	(3)	-	(1)

				BANK
in HRK million	IAS 39 Closing balance 31 Dec 17	IFRS 9 Opening balance 1 Jan 18	Retained earnings effects	OCI effects
Deferred tax assets	88	49	(41)	2

These changes result primarily from the impact of IFRS 9 initial application adjustments over the underlying temporary differences between the accounting and tax values of the financial assets and liabilities.

IFRS 15 Revenue from Contracts with Customers

As of 1 January 2018, Group has adopted IFRS 15 'Revenue from Contracts with Customers'. IFRS 15 specifies how and when an entity recognises revenue from contracts with customers. It also requires such entities to provide users of financial statements with more informative and more relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers, except for those revenue streams for which other standards like IFRS 9 provide more specific regulations. As a consequence, the standard is not focused on recognition of revenues from financial instruments. For Group the scope of application is therefore substantially restricted to revenue streams presented under fee and commission income. The adoption of the five step model did not impact the timing or amount of fee and commission income and the related assets and liabilities recognised by Group. Accordingly, the impact of the first time application of this standard is limited to new disclosures.

Financial instruments – recognition and measurement

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.

(i)Classification of financial instruments
In accordance with IFRS 9 (as well as IAS 39), 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.

Financial instruments are classified within the following measurement categories, in accordance with IFRS 9:

1) Financial assets or financial liabilities measured at fair value through profit or loss (FVPL)
2) Financial assets and financial liabilities measured at amortized cost (AC)
3) Financial assets measured at fair value through other comprehensive income (FVOCI)

Classification of financial assets

Classification of the financial assets at initial recognition depends on:

1) The business model for managing the financial assets and
2) The cash flow characteristics of the financial assets.

Business models for managing financial assets
The business model is determined at a level which reflects how groups of financial asset 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).

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 portfolio is performed on a yearly basis. From the Group 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.
2) Business models "held to collect", "hold and sell" and other business models for securities (non-client business).

Financial instruments – recognition and measurement (continued)

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: These 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.

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 financials 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.

Financial instruments – recognition and measurement (continued)

Classification of financial liabilities

Financial liabilities are classified as measured at amortised cost, except for:
- Financial liabilities measured at fair value through profit or loss
- Financial liabilities that arise when a transfer of a financial asset does not qualify for de-recognition
- 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.

(ii)Initial recognition
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.

Fair value is defined as an exit price in an orderly transaction between market participants on the measurement date. Details on valuation techniques applied for fair value measurement and on the fair value hierarchy are disclosed in Note 44 Fair value of financial instruments.

At initial recognition, the expected credit loss model is applied to financial instruments that fall under the scope of impairment, as defined by IFRS 9. For those instruments, credit loss allowance is recognised, in the amount of 12-month expected credit losses.

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 de-recognition of the asset and recognition of gains or losses due to the sale.

Subsequent measurement of financial instruments is defined in measurement categories below.

(iii)Financial assets and financial liabilities measured at amortised cost (AC)
Financial assets measured at amortised cost

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'.

Financial instruments – recognition and measurement (continued)

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.

Initial recognition and subsequent measurement

Financial assets within this category are measured initially at fair value, including transaction costs that are directly attributable to the acquisition of financial assets. After initial recognition, subsequent measurement at amortised cost by using the effective interest method is applied.
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 re-estimation 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.

Financial instruments – recognition and measurement (continued)

Modifications of contractual cash flows not leading to de-recognition of financial assets

Modifications of contractual cash flows not leading to de-recognition 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 de-recognition.
In case of a change in underlying cash flows of an asset due to contractual modifications that do not result in de-recognition, 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.

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 income
- 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 income
- 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 de-recognition of the assets are recognised in profit or loss for the period, and reported under the line 'Gains/losses from de-recognition of financial assets measured at amortised cost'.

Impairment

Financial asset classified as measured at amortised cost is in the scope of IFRS 9 impairment requirements. Credit loss is determined by applying expected loss impairment model. Allowances for expected credit loss (gains and losses) are recognised in profit or loss.
When 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).

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 income.
Gains and losses from de-recognition of financial liabilities are recognised in profit or loss for the period and reported under the line 'Other gains/losses from de-recognition of financial instruments not measured at fair value through profit or loss.

Financial instruments – recognition and measurement (continued)

iii) Financial assets measured 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 f air 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'.

Initial recognition and subsequent measurement

Financial assets within this category are measured initially at fair value including transaction costs that are directly attributable to the acquisition of financial assets. After initial recognition, subsequent measurement at fair value is applied.
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 income
- 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 de-recognition of the investments in equity instruments, the amount accumulated in other comprehensive income is transferred to retained earnings.

Financial instruments – recognition and measurement (continued)

Debt instruments

- Change in fair value (gains and losses) are recognised in other comprehensive income, is 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 income
- 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 income
  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 components are:

- Accumulated impairment amount (credit loss allowances in accordance with the expected loss model)
- Change in fair value (gains and losses) of financial assets
- Gains and losses resulting from foreign currency exchange differences recognised in other comprehensive income

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

Impairment

Financial assets measured at fair value through other comprehensive income are within the scope of IFRS 9 impairment requirements, except equity instruments. Credit loss is determined by applying expected loss impairment model. For debt instruments, the expected credit loss does not reduce the carrying amount in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the asset was measured at amortised cost is recognised in other comprehensive income as the 'accumulated impairment amount' – loss allowance. Allowances for expected credit loss (gains and losses) are recognised in profit or loss.
When financial asset subsequently becomes credit-impaired financial assets, 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).

(iv)Financial assets and financial liabilities measured at fair value through profit or loss
Financial assets measured 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.

Financial instruments – recognition and measurement (continued)

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 17 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 17.

Initial recognition and subsequent measurement

Financial assets within this measurement category is measured initially at fair value, excluding transaction costs that are directly attributable to the acquisition of financial assets. The transaction costs are recognised as an expense in profit or loss, in the period to which they are related. After initial recognition, subsequent measurement at fair value is applied.

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 income
- Dividend income is recognised in profit or loss, and reported under the line 'Dividend income' in the statement of income
- 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 de-recognition, 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 and financial liabilities designated at fair value through profit or loss.
On the balance sheet, financial liabilities held for trading are reported under the line 'Financial liabilities held for trading', sub-item 'Other financial liabilities'. Financial liabilities designated at fair value through profit or loss are reported on the balance sheet under the line 'Financial liabilities designated at fair value through profit or loss' and are further broken down into 'Deposits from customers', 'Debt securities issued' and 'Other financial liabilities'.

Financial instruments – recognition and measurement (continued)

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

- Change in the fair value due to own credit risk has to be presented in other comprehensive income and not in profit or loss, and is reported under the line 'Own credit risk reserve' in the statement of comprehensive income
- Interest expense is reported under the line 'Other similar expenses' under 'Net interest income' in the statement of income
- Other 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 income and for financial liabilities designated at fair value through profit or loss under the line 'Gains/losses from financial instruments measured at fair value through profit or loss'

The amount recognised in other comprehensive income is never reclassified to profit or loss. However, upon de- recognition of the financial liabilities designated at fair value through profit or loss, the amount accumulated in other comprehensive income is transferred to retained earnings.

Gains or losses resulting from de-recognition, except the above mentioned, are recognised in profit or loss, and reported, for financial liabilities held for trading under the line 'Net trading result' in the statement of income and for financial liabilities designated at fair value through profit or loss under the line 'Gains/losses from financial instruments measured at fair value through profit or loss'

Classification, subsequent measurement and balance sheet line items of financial instruments under IAS 39 – comparative period information

As regards the comparative period information on financial instruments in accordance with IAS 39, the Group uses the following categories of financial instruments:

- financial assets or financial liabilities at fair value through profit or loss (with two subcategories financial asset or liabilities held for trading and financial asset or liabilities designated at fair value through profit or loss)
- available-for-sale financial assets
- held-to-maturity investments
- loans and receivables
- financial liabilities measured at amortised cost

The line items presented on the statement of financial position do not necessarily correspond with the IAS 39 categories of financial instruments. The correspondence between the statement of financial position line items and categories of financial instruments is described in the table at item (ix).

(i) Cash and cash balances in the comparative period
Cash balances include cash on hand and 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.

(ii) Derivative financial instruments in the comparative period
Please refer to the part 'Derivative financial instruments' below.

(iii) Financial assets or financial liabilities held for trading in the comparative period
Financial assets or financial liabilities – held for trading comprise derivatives and other trading assets and liabilities. Treatment of derivatives – held for trading is discussed in the part Derivative financial instruments below.
Other trading assets and liabilities are non-derivative instruments. They include debt securities as well as equity instruments acquired or issued principally for the purpose of selling or repurchasing in the near term. In the statement of financial position, they are presented as Other trading assets or Other trading liabilities under the heading Financial assets or financial liabilities – held for trading.

Classification, subsequent measurement and balance sheet line items of financial instruments under IAS 39 – comparative period information (continued)

Changes in fair value (clean price for debt instruments) resulting from other trading assets and liabilities are reported in the statement of income under the line ‘Net trading result’. Interest income and expenses are reported in the statement of income under the line Other similar income’ or ‘Other similar expense’ under ‘Net interest income’. Dividend income is presented under the line ‘Dividend income’.

(iv)Financial assets or financial liabilities designated at fair value through profit or loss in the comparative period
Financial assets or financial liabilities classified in this category are those that have been designated by management on initial recognition (fair value option).
Upon initial recognition the Group shall designate financial asset or liability at fair value through profit or loss only when doing so results in more relevant information, because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch) that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases,
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Bank’s management,
- the contract contains one or more embedded derivative which is not closely related and significantly modifies the cash flows of the underlying financial instrument.

At any subsequent time, assets and liabilities are measured at fair value with changes in fair value (clean price) recognized in profit or loss, reported under the line ‘Gains/losses from financial assets and liabilities measured at fair value through profit or loss’ in the statement of income. Interest earned on debt instruments is reported under the line ‘Other similar income’ under ‘Net interest income’. Dividend income on equity instruments is reported under the line ‘Dividend income’. For financial liabilities designated at fair value through profit or loss, interest incurred is reported the line ‘Other similar expenses’ under ‘Net interest income’ as well.

(v) Financial assets available for sale in the comparative period
Financial assets classified as available for sale are those non-derivative financial assets which are neither classified as held for trading, designated at fair value through profit or loss, loans and receivables nor held to maturity financial investments. Available-for-sale assets include debt instruments and equity instruments.
Financial instruments in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

Available for sale financial assets are recognised at settlement date at fair value increased by directly attributable transaction cost. After initial recognition, subsequent measurement is at fair value.

Unrealized gains or losses (changes in fair value – clean price) are recognized in other comprehensive income and reported under the line ‘Available for sale reserve’ until the financial asset is disposed of or impaired when the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss and reported under the line ‘Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net’ in the case of sale or under the line ‘Net impairment loss on financial assets’ in the case of impairment.

Interest income on available for sale debt instruments is recognised in profit or loss by using effective interest rate method, and reported under the line ‘Net interest income’. Foreign exchange differences on debt instruments are recognized in profit or loss as well.
Dividend income on equity instruments is recognized in profit or loss, while foreign exchange differences are recognized in OCI.
Equity instruments which do not have a quoted market price and whose fair value cannot be reasonably determined are carried at cost (acquisition) less impairment.

Classification, subsequent measurement and balance sheet line items of financial instruments under IAS 39 – comparative period information (continued)

(vi)Financial assets held to maturity in comparative period
Non - derivative financial assets with fixed or determinable future cash flows and fixed maturities which are quoted in an active market are reported within this category if the Group has the positive intent and ability to hold them until maturity and which do not meet definition of 'Loans and Receivables' according to IAS 39. After the initial recognition, subsequent measurement is at amortised cost using the effective interest rate. The premium, discount and initial transaction costs are included in the carrying amount of a financial instrument and amortised in profit or loss using the effective interest rate method.

Interest earned on financial assets held to maturity is reported in the statement of income under the line 'Net interest income'. Losses arising from impairment of such financial assets are presented as 'Net impairment loss on financial assets'. Realised gains or losses from de-recognition are recognised in the statement of income under the line 'Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net'.

(vii) Loans and receivables in the comparative period
The statement of financial position line 'Loans to and receivables from credit institutions' includes financial instruments which are allocated to financial instrument category 'Loans and receivables' with a contractual maturity of more than 24 hours. The statement of financial position line 'Loans to and receivables from customers' includes financial assets meeting the definition of Loans and receivables. Furthermore, finance lease receivables that are accounted for using IAS 17 are presented under these statement of financial position line items.

Loans and receivables are non-derivative financial assets (including debt securities) with fixed or determinable payments that are not quoted in an active market, other than:
- Loans and receivables that the Group intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the Group, upon initial recognition, designates as at fair value through profit or loss,
- Loans and receivables that the Group, upon initial recognition, designates as available for sale,
- Loans and receivables for which the Group may not recover substantially all of initial investment, other than because of credit deterioration.

After initial recognition, loans and receivables are measured at amortised cost. Finance lease receivables are subsequently measured as specified in the chapter Leasing. Interest income earned is reported under the line 'Net interest income' in the statement of income.
Impairment losses arising from loans and receivables are recognised in the statement of income under the line 'Net impairment loss on financial assets'.

(viii) Financial liabilities measured at amortised cost in comparative period
Financial liabilities are measured at amortised cost, unless they are measured at fair value through profit or loss.

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

Interest expenses incurred are reported in the line 'Net interest income' in the statement of income. Gains and losses from de-recognition (mainly repurchase) of financial liabilities at amortised cost are reported under the line 'Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net'.

Classification, subsequent measurement and balance sheet line items of financial instruments under IAS 39 – comparative period information (continued)

(ix) Relationships between statement of financial position items, measurement methods and categories (classes) of financial instruments in the comparative period:

Statement of financial position	Measurement principle			Financial instrument category
	Fair value	At amortised cost	Other	
Assets				
Cash and cash balances		x		Loans and receivables
Financial assets - held for trading				
Derivatives	x			Financial assets at fair value through profit or loss
Other trading assets	x			Financial assets at fair value through profit or loss
Financial assets - at fair value through profit or loss	x			Financial assets at fair value through profit or loss
Financial assets - available for sale	x			Available for sale financial assets
Financial assets - held to maturity		x		Held to maturity investments
Loans to and receivables from credit institutions		x		Loans and receivables
Finance lease			IAS 17	
Loans to and receivables from customers		x		Loans and receivables
Finance lease			IAS 17	
Liabilities and equity				
Financial liabilities - held for trading				
Derivatives	x			Financial liabilities at fair value through profit or loss
Other trading liabilities	x			Financial liabilities at fair value through profit or loss
Financial liabilities measured at amortised cost		x		Financial liabilities measured at amortised cost

Furthermore, two additional classes of financial instruments that are not presented in the table above are part of IFRS 7 disclosures. These are financial guarantees and irrevocable credit commitments.

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
- Other off balance commitments that meet the definition of a firm commitment

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).

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 income, impairment losses and their reversals (gains) on all types of financial instruments are reported under the line 'Impairment result from financial instruments'.

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.

Impairment of financial instruments under IFRS 9 (continued)

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

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 43.4 Risk management, part Credit risk.

Impairment of financial assets and credit risk losses of contingent liabilities under IAS39 – comparative information

All financial assets are assessed at each statement of financial position date whether there is any objective evidence that a financial asset or group of financial assets is impaired with the exception of those measured at fair value through profit or loss.
A financial asset or group of financial assets is deemed to be impaired if, and only if, there was an objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that loss event or events had an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. The Group uses the CRR definition of default as a primary indicator of loss events.

Default, as a loss event, occurs when:

- The obligor is more than 90 days past due on any material credit obligation;
- As a result of specific information or an event, the obligor is unlikely to fulfil its credit obligations in full, without recourse to actions such as realising security;
- The obligor is subject to distressed restructuring, i.e. a change in contract terms, for clients in financial difficulties, resulting in a material loss;
- The obligor is subject to bankruptcy or similar protection proceedings.

For the assessment at portfolio level, the Group uses the incurred but not reported losses concept under IAS 39. This concept identifies the time period between the moment of the loss event causing future problems and actual detection of the problems by the bank at the moment of default.
Credit risk losses resulting from contingent liabilities were recognised if it was probable that an outflow of resources to settle a credit risk bearing contingent liability would occur and that this outflow would result in a loss.

De-recognition of financial instruments including treatment of contractual modifications

(i) De-recognition of financial assets
A financial asset is derecognised, when and only when:

1) either the contractual rights to the asset's cash flows have expired, or
2) the asset is transferred and the transfer qualifies for de-recognition

The decision whether a transfer qualifies for de-recognition is made by applying a combination of risks and rewards and control tests. In cases:

1) when the Group transfers substantially all the risks and rewards connected to ownership, financial asset should be derecognised
2) when the Group has retained substantially all the risks and rewards connected to ownership of the transferred asset, financial asset should be derecognised only if control is transferred,
3) if the Group neither transfers nor retains substantially all the risks and rewards connected to ownership of a transferred asset, and retains control of the transferred asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. When the Group continues to recognise the asset to the extent of its continuing involvement, it also recognises an associated liability

The difference between the carrying amount of the derecognised asset and the consideration received is reported in the statement of income under the line 'Gains/losses from de-recognition 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 de-recognition of financial instruments not measured at fair value through profit or loss'. For financial assets measured at fair value through profit or loss, the de-recognition 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'.

In the comparative period, line items 'Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net', and 'Result from financial assets and liabilities designated at fair value through profit or loss' and 'Net trading result' are used depending on the measurement category of the derecognised financial assets.

De-recognition of financial instruments including treatment of contractual modifications (continued)

(ii) De-recognition 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 de-recognition of the existing financial asset and the initial recognition of the modified financial asset. The Group has developed a set of de-recognition criteria that reflect modifications which are (either quantitatively or qualitatively) substantial enough, to satisfy the de-recognition trigger:

a) The modification results in a change of the contractual counterparty

b) 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. Contractual modification that affects compliance or non-compliance of an instrument with the SPPI criterion is considered as potentially substantial modification which leads to derecognition of the original financial asset and initial recognition of the modified financial asset as a new financial instrument.

c) 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 de-recognition of the related original asset result in the initial recognition of 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 income under the line 'Impairment result from financial instruments'.

(iii) De-recognition 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 income, 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' (in the comparative period, 'Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net'), '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.

(iv)De-recognition criteria with respect to modifications of financial liabilities
An exchange between the existing borrower and the lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Derivative financial instruments

A derivative is a financial instrument or other contract with all three of the following characteristics:
1) 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”);
2) 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
3) it is settled at a future date

Derivative financial instruments are used by the Group to manage exposures to interest rates, foreign currencies and other market price risks. Derivatives used by the Group include mainly interest rate swaps, futures, options, forward rate agreements, and cross currency swaps.
Derivative financial instruments are carried at fair value (dirty price) on the balance sheet, classified as financial instruments held for trading. They are reported under 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 income under the line ‘Net trading result’. Interest income/expense related to derivatives is reported in the statement of income under the line ‘Other similar income’ or ‘Other similar expenses’ under ‘Net interest income’.

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 income.
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 income under the line item ‘Interest income’ under ‘Net interest income’.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported on the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.Income and expenses are presented on net basis only when permitted under IFRS or for gain and losses arising from group of similar transactions such as in the Group's trading activity.

Financial guarantees

In the ordinary course of business, the Group provides 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 de-recognition 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'. In the comparative period, the financial guarantee contracts were reviewed for the possibility that provision recognition under IAS 37 was required.
The fee received is recognised in the statement of income under the line 'Fee and commission income' under 'Net fee and commission income' on a quarterly basis, over the life of the guarantee given.

Leasing

A leasing agreement is the right of the lessee to use an asset for an agreed period of time which is transferred by the lessor against payment.
The classification of lease, according to IAS 17, depends on the allocation of risks and rewards which are connected with the ownership of the asset to the lessor and to the lessee respectively.

A lease is classified as finance lease if substantially all risks and rewards incidental to ownership of an asset are transferred. Lessee recognises the finance lease as assets and liabilities on the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.
Lessor recognises the assets held under a finance lease on the statement of financial position as receivable at an amount equal to the net investment in the lease (present value of leasing payments including any residual value). Difference between total receivable and present value of receivable form interest income recognised by applying effective interest rate and reported in the statement of income under the line 'Interest income' under 'Net interest income'.

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of the assets to the lessee. For the lessee, the lease payments under the operating lease are recognised as an expense on a straight-line basis over the lease term, reported in the statement of income under the line 'Other administrative expenses'.
Lessor recognises the assets held under an operating lease at cost less accumulated depreciation. The asset is reported by the lessor under the line 'Property and equipment' or under 'Investment properties'. Lease income is recognised in profit or loss on a straight-line basis over the lease term and reported in the statement of income under the line 'Rental income from investment properties and other operating leases'.

Foreign currency translation

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

Foreign currency translation (continued)

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 income for the period, under the line 'Net trading 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 recognised in the statement of income, 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 income if a non-monetary item is measured at fair value through profit or loss.

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 income and consolidated statement of comprehensive income are translated at average exchange rate for the respective reporting period calculated on the basis of daily rates. Goodwill, intangible assets recognised on acquisition of foreign subsidiaries and fair value adjustments to the carrying amounts of assets and liabilities 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 income 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 2018	EUR 1=HRK 7.417575
31 December 2017	EUR 1=HRK 7.513648

Business combinations and goodwill

(i) 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.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being 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 exceeds the cost of the business combination, the determined amount is recognized in profit or loss in the period of acquisition, and reported in the statement of income under the line 'Other operating result'.

Non-controlling interests that are present ownership interests in the acquiree are measured at the proportionate share of the acquiree's identifiable net assets.

Acquisition of Erste Factoring d.o.o.:

On 11 August 2018 the Bank acquired additional 25.004 % of shares in the company Erste Factoring d.o.o. increasing its ownership to 100% for cash consideration in the amount of HRK 21 million.
As it was acquired within the Group (ultimate controlling parent is Erste Group Bank AG) pooling of interest accounting method for acquisition of Erste Factoring additional shares was used.

Before acquisition re-capitalization of the Erste Factoring d.o.o. was carried out in the amount of HRK 60 million.

Acquisition of Diners Club International MAK d.o.o.e.l.:

On 9 March 2017 subsidiary Erste Card Club d.o.o., Zagreb acquired 100 % of stake ownership in the company Diners Club International MAK d.o.o.e.l., Skopje, Republic of Macedonia for cash consideration in the amount of HRK 15 million.
For acquisition in Diners Club International MAK d.o.o.e.l. initial goodwill was recognized in the amount of HRK 4 million that was 100% impaired.

Amounts recognised on initial consolidation:

Statement of financial position	in HRK million
Amounts due from other banks	3
Loans and advances to customers	38
Other assets	6
ASSETS	**47**
Amounts due to other banks	12
Amounts due to customers	23
Other liabilities	1
LIABILITIES	**36**
Net assets acquired	**11**
Total net asset acquired	11
Cost of acquisition	**15**
Goodwill	**4**
Cash inflow on acquisition of the subsidiary:	
Cash acquired with the subsidiary	1
Cash paid	(15)
Net cash outflow	**(14)**

Business combinations and goodwill (continued)

(ii) Goodwill and goodwill impairment testing
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.

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 income 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.

Property and equipment

Property and equipment is 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 income 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	
	2017	2018
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 is 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 income 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 reported in the statement of income under the line 'Rental income from investment properties and other operating leases'. Depreciation is recognised and reported in the statement of income 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 reported under 'Property and equipment'. Any impairment losses, as well as their reversals, are recognised in the statement of income and reported under the line 'Other operating result'.

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 income under the line 'Depreciation and amortisation'.

The estimated useful lives are as follows:

	Useful life in years	
	2017	2018
Software	4	4
Core banking software	6	6
Other intangible assets	5	5

Impairment of non-financial assets (property and equipment, investment properties, intangible 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. For specific rules related to impairment of goodwill and impairment allocation rules for CGUs please see the chapter 'Business combinations and goodwill', part (ii) Goodwill and goodwill impairment testing.

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 the statement of income under the line 'Other operating result'.

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).

The cost of acquiring inventory includes not only the purchase price but also all other directly attributable expenses, such as transportation costs, customs duties, other taxes and costs of conversion of inventories, etc. Borrowing costs are capitalised to the extent to which they directly relate to the acquisition of real estate.
Gains or losses resulting from sale are recognised in profit or loss and presented under the line 'Other operating result' in the statement of income, together with costs of sales and other costs incurred in selling the assets.

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.
On the statement of financial position, provisions are reported 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 are reported in the statement of income under the line 'Other operating result'.

Long-term employee benefits

For defined retirement benefit and jubilees, the cost of providing benefits is determined 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 and severance benefit provisions are recognized in full in the period in which they occur. Remeasurement of pension and severance defined-benefit plans are recognised in other comprehensive income.
Actuarial gains or losses in provisions for jubilee benefits are recognised in statement of profit or loss in the period in which they occur. Remeasurement of jubilee defined-benefit plans are recognised in the statement of income and reported under the line 'Personnel expenses'.

Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.
The retirement benefit obligation recognized in the statement of financial position represents the present value of the defined benefit obligation.

Income tax

Income tax comprises of current and deferred tax.
(i) 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.

Income tax (continued)

(ii) 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 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 income.

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.

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.

Recognition of income and expenses

The description and recognition criteria of the line items reported in the statement of income are as follows:

(i) 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.

Recognition of income and expenses (continued)

'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 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 - recognition and measurement'.

'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, 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 and other financial liabilities in all measurement categories of financial liabilities. Net interest income also includes interest on derivative financial instruments.

(ii) Net fee and commission income
The Group recognises fee and commission income and expenses earned from a diverse range of services that it provides to its customers.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include lending fees, 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.

(iii) 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.

(iv) Net trading 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.

(v) Gains/losses from financial instruments measured at fair value through profit or loss
Changes in fair value (clean price) of non-trading financial assets at fair value through profit or loss, including gains and losses on de-recognition, are reported under this line item.
Gains and losses (clean price) of financial liabilities designated at fair value through profit or loss, including gains and losses on de-recognition, are also reported under this line item.
However, the fair value changes resulting from credit risk of the liability are recognised in other comprehensive income.
In the comparative period this line item includes only changes in fair value (clean price, including the effect of credit risk of the liability) of financial assets and liabilities designated at fair value through profit or loss.

Recognition of income and expenses (continued)

(vi)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'.

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

(viii) 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.

(ix) 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.

(x) Depreciation and amortisation
This line item comprises depreciation of property and equipment, depreciation of investment property and amortisation of intangible assets.

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

(xii) Other gains/losses from de-recognition of financial instruments not measured at fair value through profit or loss
This line item includes de-recognition 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'.

(xiii) 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.
Moreover, gains/losses from de-recognition of financial assets in Stage 3 and POCI assets are included as part of the impairment result.

(xiv) Other operating result
Other operating result reflects all other income and expenses not directly attributable to the Bank's and the Group's ordinary activities. Furthermore, levies on banking activities are considered as part of the other operating result.

Other operating result includes impairment losses or any reversal of impairment losses as well as results on the sale of property and equipment and intangible assets. Also included here are any impairment losses on goodwill.

Recognition of income and expenses (continued)

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 de-recognition of subsidiaries.
In the comparative period, other operating result also included income from the release of and expenses for allocations to provisions for credit risk.

(xv) Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net in the comparative period
This line item includes selling and other de-recognition gains or losses on available-for-sale and held-to-maturity financial assets, loans and receivables and financial liabilities measured at amortised cost. However, if such gains/losses relate to individually impaired financial assets they are included as part of the net impairment loss.

(xvi) Net impairment loss on financial assets in the comparative period
Net impairment losses on financial assets comprise impairment losses and reversals of impairment on loans and receivables, held-to-maturity and available-for-sale financial assets. Net impairment losses relate to allowances recognised both at individual and portfolio (incurred but not reported) level. Direct write-offs are considered as part of impairment losses. This line item also includes recoveries on written-off loans removed from the balance sheet.

d) 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 below.

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.
Under the IAS 39 incurred loss impairment model used for the comparative period, the Group reviewed its financial assets not measured at fair value through profit or loss at each balance sheet date to assess whether an impairment loss should be recorded in the statement of income. In particular, this involved determining whether there is objective evidence of impairment as a result of a loss event occurring after initial recognition and estimating the amount and timing of future cash flows when determining an impairment loss.

Control
IFRS 10 Consolidated Financial Statements defines the investor's control over an investee in terms of the investor having all of the following:

(a) Power to direct the relevant activities of the investee, i.e. activities that significantly affect the investee's returns;
(b) Exposure, or rights, to variable returns from its involvement with the investee; and
(c) 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:

(1) Power stemming both from voting rights and from contractual arrangements (or mostly from the latter);
(2) Exposure stemming both from on-balance investments and from off-balance commitments or guarantees (or mostly from the latter); or
(3) 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).

Impairment of non-financial assets
The Group reviews its non-financial assets at each balance sheet date to assess whether there is an indication of impairment loss that should be recorded in the statement of income. Furthermore, cash-generating units to which goodwill is allocated are tested for impairment on a yearly basis. Judgement and estimates are required to determine the value in use and fair value less costs of disposal by estimating the timing and amount of future expected cash flows and the discount rates. Assumptions and estimates used in the calculation of impairment of non-financial asset are described in the parts 'Business combinations and goodwill' and 'Impairment of non-financial assets' in the Accounting Policies

d) 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 2018. 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 standards, their amendments and interpretation have become mandatory for our financial year 2018, endorsed by the EU:

- IFRS 9: Financial Instruments
- IFRS 15: Revenue from Contracts with Customers including Amendments to IFRS 15: Effective date of IFRS 15
- Clarifications to IFRS 15 Revenue from Contracts with Customers
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
- Amendments to IAS 40: Transfers of Investment Property
- Annual Improvements to IFRSs 2014-2016 Cycle (amendments to IAS 28 and IFRS 1)
- IFRIC 22: Foreign Currency Transactions and Advance Consideration

The effects of application of IFRS 9 and IFRS 15 are described in chapter ‘c) Accounting and measurement methods’ above. Otherwise application of the above mentioned amendments and interpretation 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 standards, amendments and interpretations are not yet endorsed by the EU:

- Amendments to IFRS 3: Definition of a Business
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRSs 2015-2017 Cycle (amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)

Following standards, amendments and interpretations are already endorsed by the EU:

- IFRS 16: Leases
- Amendments to IFRS 9: Prepayment features with negative compensation
- IFRIC 23: Uncertainty over Income Tax Treatments

Application of the above mentioned standards and amendments will not have a significant impact on the Group’s financial statements.

Standards and interpretations not yet effective (continued)

IFRS 16 Leases
In January 2016, the IASB issued IFRS 16 which is effective for annual periods beginning on or after 1 January 2019. IFRS 16 replaces existing guidance for accounting for leases in IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a lease, SIC-15 Operating leases – Incentives and SIC-27 Evaluation the Substance of Transactions Involving the Legal Form of a lease.
IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. 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.

At inception date of a contract, the contract is assessed for whether it contains a lease, i.e. whether the contract conveys the right to control the use of an identified asset for a period of the time in exchange for a consideration. A right-of-use asset and a lease liability are recognised at the lease commencement date. It is initially measured at cost and subsequently depreciated from the commencement date to the earlier of the end of its useful life or the end of the lease term. The Group will use the straight-line method of depreciation.

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, the exercise price under a purchase option and lease payments in an optional renewal period if the lessee is reasonably certain to exercise the options and penalties for early termination if the lease term reflects the lessee exercising the termination option.

Subsequently the carrying amount of the lease liability is increased by interest using the applicable discount rate, reduced by lease payments made and remeasured to reflect any reassessment or lease modification. For leases of movables by the Group entities the incremental borrowing rate will consist of a base rate, which is the Euribor, 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 shall generally be based on a rate that is readily observable. Such a rate might be the property yield reflecting the annual return expected on the property. Further, an adjustment to the property yield is necessary to reflect specific features of an entity or the lease agreement (such as creditworthiness and lease term).

Lessor accounting remains similar to the current IAS 17 standard, i.e. the lessor continues to classify leases as finance or operating leases. Compared to IAS 17 the notes will be much more comprehensive under IFRS 16.

The Group will transit to IFRS 16 using the modified retrospective approach according to IFRS 16.C5 (b) whereby comparative information will not be restated. For leases previously classified as operating leases, the applicable discount rate will be the lessee's incremental borrowing rate determined at the date of initial application.
The right-of-use asset will be recognised at an amount equal to the lease liability (IFRS 16.C8 (b)(ii)). As a result, the Group does not expect any impact on the equity at initial application. All contracts which were previously identified as leases applying IAS 17 and IFRIC 4 will be taken over into IFRS 16.
The Group will not apply IFRS 16 to any leases on intangible assets.
The Group will use the exemption for short term leases and leases of low value whereby the right-of-use-asset is not recognised.
The analysis and planning of proper IT solutions for requirements of IFRS 16 have continued throughout 2017 and 2018. At the same time the contract analysis has been in focus.

Based on currently available information, the Group estimates at the transition date to IFRS 16 that the right of use assets and lease liabilities will increase the balance sheet by an amount of HRK 114 million for the Group and HRK 88 million for the Bank. The vast majority (85%) of the lease contracts refer to real estate.

Standards and interpretations not yet effective (continued)

Amendments to IFRS 9: Prepayment features with negative compensation
Amendments to IFRS 9 were issued in October 2017 and are effective for annual periods beginning on or after 1 January 2019. The amendments clarify that the contractual terms of a debt instrument are payments of principal and interest even if the reasonable compensation for an early termination of the instrument is negative, i.e. it has to be paid by the creditor. Further, the amendments explain that the requirements for accounting for modification gains or losses also apply to cases when financial liabilities are modified or exchanged and this does not lead to their derecognition. Application of these amendments is not expected to have a significant impact on the Group's financial statements.

Amendments to IFRS 3: Definition of a Business
Amendments to IFRS 3 were issued in October 2018 and are effective for annual periods beginning on or after 1 January 2020. The amendments clarify the three elements, i.e. inputs, process and outputs in the definition of a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. Also, the amendments include an optional concentration test to permit a simplified assessment of whether an acquired set of activities and assets is an asset acquisition rather than a business combination. Application of these amendments is not expected to have a significant impact on the Group's financial statements.

Amendments to IAS 1 and IAS 8: Definition Material
Amendments to IAS 1 and IAS 8 were issued in October 2018 and are effective for annual periods beginning on or after 1 January 2020. The amendments clarify that the information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Application of these amendments is not expected to have a significant impact on the Group's financial statements.

Amendments to IAS 19 Plan Amendment, Curtailment or Settlement
Amendments to IAS 19 were issued in February 2018 and are effective for annual periods beginning on or after 1 January 2019. The amendments require that if a plan amendment, curtailment or settlement occurs, it is mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. Application of these amendments is not expected to have a significant impact on the Group's financial statements.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
Amendments to IAS 39 were issued in October 2017 and are effective for annual periods beginning on or after 1 January 2019. The amendments clarify that a company applies IFRS 9 Financial Instruments including its impairment requirements to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. Application of these amendments is not expected to have a significant impact on the Group's financial statements.

Annual Improvements to IFRSs 2015-2017 Cycle
In December 2017, the IASB issued a set of amendments to various standards.
The amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 are effective for annual periods beginning on or after 1 January 2019. Application of these amendments is not expected to have a significant impact on the Group's financial statements.

Standards and interpretations not yet effective (continued)

IFRIC 23: Uncertainty over Income Tax Treatments
IFRIC 23 was issued in June 2017 and is effective for annual periods beginning on or after 1 January 2019. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. An entity is required to use judgement to determine whether each tax treatment should be considered independently or whether some tax treatments should be considered together. If the entity concludes that it is not probable that a particular tax treatment is accepted by a taxation authority, the entity has to use the most likely amount or the expected value of the tax treatment. Otherwise the treatment used in the tax filings is applied. An entity has to reassess its judgements and estimates if facts and circumstances change. Application of the interpretation is not expected to have a significant impact on the Group's financial statements.

C. NOTES

1. Net interest income

	GROUP		BANK	
in HRK million	2017	2018	2017	2018
Interest income				
Financial assets - held to maturity	81	x	56	x
Loans and receivables	2,330	x	1,862	x
Financial assets at AC	x	2,278	x	1,804
Financial assets - available for sale	192	x	173	x
Financial assets at FVOCI	x	182	x	156
Other similar income				
Financial assets - held for trading	81	69	81	71
Other assets	-	-	-	-
Interest income from negative interest rates	4	1	4	1
Interest and other similar income	**2,688**	**2,530**	**2,176**	**2,032**
Interest expenses				
Financial liabilities measured at amortised cost	(540)	(381)	(443)	(305)
Other similar expense				
Financial liabilities - held for trading	(70)	(65)	(70)	(65)
Other liabilities	-	(1)	-	-
Interest expense from negative interest rates	(6)	(10)	(6)	(10)
Interest and other similar expense	**(616)**	**(457)**	**(519)**	**(380)**
Net interest income	**2,072**	**2,073**	**1,657**	**1,652**

In 2018, interest components of trading book derivatives are disclosed in 'Other similar income of financial assets – held for trading and 'Other similar expenses of financial liabilities – held for trading' in 'Net interest income'. In prior periods, interest from trading book derivatives was presented under line item 'Net trading result' in 'Net trading and fair value result' (Note 4). Interest income in the amount of HRK 64 million for the Group and the Bank and interest expense in the amount of HRK 63 million for the Group and the Bank that relates to interest components of trading book derivatives in 2017 have been reclassified from 'Net trading result' to 'Net interest income'. The presentation was changed due to the harmonisation of the disclosure of all interest from derivative financial instruments irrespective of their organisational assignment to the trading book or banking book.

2. Net fee and commission income

in HRK million	GROUP				BANK			
	2017		2018		2017		2018	
	Income	Expenses	Income	Expenses	Income	Expenses	Income	Expenses
Securities	29	(1)	16	(3)	28	-	14	(1)
Own issues	24	-	10	-	24	-	10	-
Transfer orders	4	-	6	(2)	4	-	4	-
Securities Other	1	(1)	-	(1)	-	-	-	(1)
Asset management	26	-	30	-	26	-	30	-
Custody	10	(2)	10	(3)	9	(2)	9	(3)
Payment services	756	(189)	793	(203)	470	(151)	509	(166)
Card business	450	(156)	467	(169)	177	(123)	201	(139)
Other	306	(33)	326	(34)	293	(28)	308	(27)
Customer resources distributed but not managed	21	(1)	30	-	21	(1)	29	-
Collective investment	-	(1)	-	-	-	(1)	-	-
Insurance products	18	-	28	-	18	-	27	-
Building society brokerage	3	-	2	-	3	-	2	-
Lending business	69	(11)	64	(8)	46	(10)	43	(7)
Loan commitments given, Loan commitments received	27	(7)	22	(6)	11	(6)	8	(5)
Guarantees given, guarantees received	37	(4)	36	(2)	34	(4)	34	(2)
Other lending business	5	-	6	-	1	-	1	-
Other	26	(18)	25	(17)	10	(1)	8	-
Net fee and commission income	**937**	**(222)**	**968**	**(234)**	**610**	**(165)**	**642**	**(177)**

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

3. Dividend income

in HRK million	GROUP 2017	GROUP 2018	BANK 2017	BANK 2018
Financial assets - available for sale	1	x	1	x
Dividend income from equity investments	-	-	24	20
Financial assets at FVOCI	x	1	x	1
Dividend income	**1**	**1**	**25**	**21**

4. Net trading and fair value result

in HRK million	GROUP 2017	GROUP 2018	BANK 2017	BANK 2018
Net trading result				
Securities and derivatives trading	30	23	29	18
Foreign exchange transactions	168	198	172	186
Net trading and fair value result	**198**	**221**	**201**	**204**

The amounts of the fair value changes that are attributable to changes in own credit risk can be found in the Notes 44.

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

	GROUP		BANK	
in HRK million	**2017**	**2018**	**2017**	**2018**
Result from measurement/sale of financial assets mandatorily at FVPL	x	4	x	3
Gains/losses from financial instruments measured at fair value through profit or loss	**x**	**4**	**x**	**3**

6. Rental income from investment properties & other operating leases

	GROUP		BANK	
in HRK million	**2017**	**2018**	**2017**	**2018**
Investment properties	4	4	2	2
Other operating leases	143	113	-	-
Rental income from investment properties & other operating leases	**147**	**117**	**2**	**2**

7. General administrative expenses

	GROUP		BANK	
in HRK million	**2017**	**2018**	**2017**	**2018**
Personnel expenses	**(668)**	**(701)**	**(487)**	**(504)**
Wages and salaries	(564)	(595)	(409)	(426)
Compulsory social security	(86)	(88)	(64)	(63)
Long-term employee provisions	(2)	(1)	(1)	(1)
Other personnel expenses	(16)	(17)	(13)	(14)
Other administrative expenses	**(644)**	**(648)**	**(467)**	**(478)**
Deposit insurance contribution	(81)	(83)	(69)	(69)
IT expenses	(160)	(169)	(144)	(153)
Expenses for office space	(105)	(104)	(83)	(85)
Office operating expenses	(128)	(133)	(68)	(68)
Advertising/marketing	(73)	(70)	(42)	(42)
Legal and consulting costs	(70)	(66)	(41)	(43)
Sundry administrative expenses	(27)	(23)	(20)	(18)
Depreciation and amortisation	**(228)**	**(228)**	**(58)**	**(75)**
Software and other intangible assets	(36)	(45)	(19)	(23)
Owner occupied real estate	(17)	(19)	(15)	(14)
Movable other property	(120)	(95)	-	-
Investment Properties	(2)	(1)	(1)	(1)
Office furniture and equipment and sundry property and equipment	(53)	(68)	(23)	(37)
General administrative expenses	**(1,540)**	**(1,577)**	**(1,012)**	**(1,057)**

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 2018 expense amount for pension contributions was HRK 102 million for the Group (2017: HRK 106 million) and HRK 73 million for the Bank (2017: HRK 75 million).

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

	2017	**2018**
Erste&Steiermärkische Bank d.d.	2,340.83	2,360.23
Erste Card Club d.o.o.	272.93	264.88
Izbor Nekretnina d.o.o.	-	-
Erste Nekretnine d.o.o.	22.54	22.52
Erste Factoring d.d.	29.79	27.73
Erste Group IT HR d.o.o.	63.91	67.08
Erste bank Podgorica d.d.	258.04	252.42
Erste Card Slovenia d.o.o.	58.62	58.79
Erste&Steiermärkische S-Leasing d.o.o.	80.57	86.06
Diners Club International Mak d.o.o.e.l.	42.24	42.81
Total	**3,169.47**	**3,182.52**

8. Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net

	GROUP		BANK	
in HRK million	**2017**	**2018**	**2017**	**2018**
Gains/losses from sale of financial assets available for sale	5	x	3	x
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	**5**	**x**	**3**	**x**

9. Net impairment loss on financial assets not measured at fair value through profit or loss

	GROUP		BANK	
in HRK million	**2017**	**2018**	**2017**	**2018**
Financial assets - available for sale	(5)	x	(4)	x
Loans and receivables	(861)	x	(436)	x
Allocation to risk provisions	(2,540)	x	(1,592)	x
Release of risk provisions	1,546	x	1,067	x
Direct write-offs	(7)	x	(5)	x
Recoveries recorded directly to the statement of profit or loss	140	x	94	x
Financial assets - held to maturity	-	x	-	x
Net impairment loss on financial assets not measured at fair value through profit or loss	**(866)**	**x**	**(440)**	**x**

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

	GROUP		BANK	
in HRK million	**2017**	**2018**	**2017**	**2018**
Sale of financial assets at FVOCI	x	28	x	14
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	**x**	**28**	**x**	**14**

11. Net impairment loss on financial assets

	GROUP		BANK	
in HRK million	**2017**	**2018**	**2017**	**2018**
Financial assets at FVOCI	x	(3)	x	(3)
Financial assets at AC	x	(212)	x	(161)
Net allocation to credit loss allowances	x	(270)	x	(172)
Direct write-offs	x	(43)	x	(29)
Recoveries recorded directly to the income statement	x	101	x	40
Modification gains or losses	x	-	x	-
Finance lease receivables	x	3	x	-
Net allocation of credit loss allowances for loan commitments and financial guarantees given	x	(34)	x	(35)
Impairment result from financial instruments	**x**	**(246)**	**x**	**(199)**

12. Other operating result

	GROUP		BANK	
in HRK million	**2017**	**2018**	**2017**	**2018**
Other operating expenses	**(343)**	**(102)**	**(324)**	**(92)**
Allocation to other provisions	(26)	(28)	(11)	(19)
Allocation to provisions for commitments and guarantees given	(261)	x	(247)	x
Other taxes	(22)	(2)	(15)	(1)
Recovery and resolution fund contributions	(30)	(28)	(30)	(28)
Impairment of goodwill	(4)	(44)	-	-
Impairment of investment in subsidiares	-	-	(21)	(44)
Other operating income	**277**	**22**	**258**	**7**
Release of other provisions	5	22	3	7
Release of provisions for commitments and guarantees given	272	x	255	x
Result from properties/movables/other intangible assets other than goodwill	4	(13)	3	(6)
Result from other operating expenses/income	(40)	12	(7)	12
Other operating result	**(102)**	**(81)**	**(70)**	**(79)**

Line Impairment of goodwill and investment in subsidiaries contains impairment expense of goodwill and investment in Erste Card Club d.o.o. for 2018. In 2017 impairment expense of goodwill relates to Erste Card Club subsidiary Diners Club International Mak d.o.o.e.l. (for details please see Note 30).

Line impairment of investment in subsidiaries in 2017 relates to Erste Factoring d.o.o. in amount of HRK 21 million.

In result of properties / moveable's / other intangible assets other than goodwill, the impairment losses of property, plant and equipment, intangible asset and foreclosed assets are included. In 2018 the Group and Bank impairment losses for foreclosed asset were HRK 14 million and HRK 8 million, respectively (2017: HRK 9 million for the Group and HRK 4 million for the Bank).

Recovery and Resolution Fund

The line Recovery and resolution fund contributions contains to the national resolution funds payable in 2018 in the amount of HRK 28 million for the Group and the Bank (2017: HRK 30 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 funds 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 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	**2017**	**2018**	**2017**	**2018**
Current tax expense / income	(194)	(239)	(156)	(196)
Current period	(194)	(239)	(156)	(196)
Deferred tax expense / income	11	(15)	(6)	-
Current period	11	(15)	(6)	-
Total	**(183)**	**(254)**	**(162)**	**(196)**

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%.

	GROUP		BANK	
in HRK million	**2017**	**2018**	**2017**	**2018**
Pre-tax profit	640	1,285	812	1,026
Income tax expense for the financial year at the domestic statutory tax rate	(115)	(231)	(146)	(185)
Impact of different foreign tax rates	5	8	-	-
Impact of tax-exempt earnings of investments and other tax-exempt income	3	95	5	9
Tax increases due to non-deductible expenses, additional business tax and similar elements	(26)	(86)	(21)	(20)
Impact non-recoverable temporary differences incurred in the current period	(51)	(40)	-	-
Tax income not attributable to the reporting period	1	-	-	-
Total	**(183)**	**(254)**	**(162)**	**(196)**
Effective tax rate	**29%**	**20%**	**20%**	**19%**

14. Cash and cash balances

	GROUP		BANK	
in HRK million	**2017**	**2018**	**2017**	**2018**
Cash on hand	1,491	1,735	1,366	1,565
Cash balances at central banks	2,735	2,976	2,521	2,643
Other demand deposits	413	243	283	175
Cash and cash balances	**4,639**	**4,954**	**4,170**	**4,383**

Analysis of cash and cash equivalents for statement of cash flow

	GROUP		BANK	
in HRK million	**2017**	**2018**	**2017**	**2018**
Cash on hand	1,491	1,735	1,366	1,565
Cash balances at central banks	2,735	2,976	2,521	2,643
Other demand deposits	413	243	283	175
Placement with banks with original maturity up to 3 months	557	2	555	-
Treasury bills with original maturity up to 3 months	149	1,953	149	1,953
Cash and cash equivalents	**5,345**	**6,909**	**4,874**	**6,336**

15. Derivatives - held for trading

	GROUP					
	2017			2018		
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	**8,125**	**52**	**49**	**9,085**	**32**	**26**
Interest rate	807	6	3	1,276	12	8
Foreign exchange	7,318	46	46	7,809	20	18
Derivatives held in the banking book	**2,442**	**-**	**3**	**667**	**1**	**1**
Interest rate	1,878	-	3	-	-	-
Foreign exchange	564	-	-	667	1	1
Total	**10,567**	**52**	**52**	**9,752**	**33**	**27**

	BANK					
	2017			2018		
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	**8,451**	**55**	**49**	**9,163**	**33**	**26**
Interest rate	934	7	3	1,354	13	8
Foreign exchange	7,517	48	46	7,809	20	18
Derivatives held in the banking book	**2,442**	**-**	**3**	**667**	**1**	**1**
Interest rate	1,878	-	3	-	-	-
Foreign exchange	564	-	-	667	1	1
Total	**10,893**	**55**	**52**	**9,830**	**34**	**27**

16. Other trading assets

	GROUP		BANK	
in HRK million	2017	2018	2017	2018
Debt securities	195	245	195	245
General governments	195	245	195	245
Other trading assets	**195**	**245**	**195**	**245**

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.
Financial assets held for trading as of 31 December 2018 and 31 December 2017 are Treasury bills of the Croatian Ministry of Finance with maturity in 2019, and with interest rate of 0.096%.

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

	GROUP	
	2018	
in HRK million	Designated	Mandatorily
Equity instruments	-	11
Debt securities	-	154
Other financial corporations	-	154
Financial assets mandatorily at FVPL	-	165
Non-trading financial assets at fair value through profit or loss	**-**	**165**

17. Non-trading financial assets at fair value through profit or loss (continued)

		BANK
	2018	
in HRK million	Designated	Mandatorily
Equity instruments	-	9
Debt securities	-	14
Other financial corporations	-	14
Financial assets mandatorily at FVPL	-	23
Non-trading financial assets at fair value through profit or loss	**-**	**23**

18. Financial assets - available for sale

		GROUP		BANK
in HRK million	2017	2018	2017	2018
Equity instruments	262	x	116	x
Debt securities	7,756	x	7,352	x
General governments	7,070	x	6,665	x
Credit institutions	529	x	530	x
Non-financial corporations	157	x	157	x
Financial assets - available for sale	**8,018**	**x**	**7,468**	**x**

19. Financial assets at fair value through other comprehensive income

Equity instruments

The carrying amount of equity instruments at FVOCI (fair value through other comprehensive income) as at 31 December 2018 amounts to 111 HRK million for the Group and 102 HRK million for the Bank. During the year 2018, the sales of such instruments amounted to 14 HRK million for the Group and Bank and were triggered by strategic business decisions.

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 2018 is provided below:

										GROUP
	GCA				CLA					
in HRK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Accumulated fair value changes	Fair value
2018										
Debt securities	8,203	130	-	8,333	(34)	-	-	(34)	158	8,491
General governments	7,473	-	-	7,473	(7)	-	-	(7)	149	7,622
Credit institutions	420	130	-	550	(17)	-	-	(17)	(5)	545
Non-financial corporations	310	-	-	310	(10)	-	-	(10)	14	324
Total	**8,203**	**130**	**-**	**8,333**	**(34)**	**-**	**-**	**(34)**	**158**	**8,491**

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

										BANK
	GCA				CLA					
in HRK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Accumulated fair value changes	Fair value
2018										
Debt securities	7,609	130	-	7,739	(32)	-	-	(32)	136	7,875
General governments	6,879	-	-	6,879	(5)	-	-	(5)	127	7,006
Credit institutions	420	130	-	550	(17)	-	-	(17)	(5)	545
Non-financial corporations	310	-	-	310	(10)	-	-	(10)	14	324
Total	**7,609**	**130**	**-**	**7,739**	**(32)**	**-**	**-**	**(32)**	**136**	**7,875**

Majority of 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 2018, the average interest yields on HRK denominated treasury bills were 0.16% for treasury bills with a maturity of 182 days and 0.27% 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 0.40% for treasury bills with a maturity of 546 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 2019 to 2028 and bear coupon interest from 1.750% to 6.750% p.a. Bonds of Republic of Poland are fixed income debt securities denominated in USD and listed on stock exchanges. These bonds have maturity in 2019 and bear coupon interest of 6.375% p.a. Bonds of Montenegro are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturity in 2020 and 2025 and bear coupon interest of 3.375% and 4.000% p.a. Bonds of Republic of Slovakia are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturities in 2023 and bear coupon interest of 0.000% p.a. Bonds of United States of America are fixed income debt securities denominated in USD and listed on stock exchanges. These bonds have maturity in 2019 and bear coupon interest of 1.625% p.a.
During 2017, the average interest yields on HRK denominated treasury bills were 0.20% for treasury bills with a maturity of 91 days, 0.28% for treasury bills with a maturity of 182 days and 0.72% for treasury bills with a maturity of 364 days. The average interest yields on the currency clause EUR denominated treasury bills were 0.16% for treasury bills with a maturity of 364 days. The average interest yields on EUR treasury bills were 0.40% for treasury bills with a maturity of 546 days.

Also, in financial assets at fair value through other comprehensive income are bonds issued by European investment Bank with maturity in 2019 and with coupon interest of 1.250% p.a. and also bonds issued by KfW Bank with maturities from 2019 to 2020 and with coupon interest from 1.500% to 1.875% p.a.
Treasury bills of the Croatian Ministry of Finance with maturity in 2019, with interest rate of 0.096% EUR denominated and with interest rate from 0.000% to 0.850% 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.

There are no purchased or originated credit-impaired (POCI) debt securities at FVOCI as of 31 December 2018.

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

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

in HRK million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of
							GROUP
	Jan 18						Dec 18
Stage 1	(32)	(3)	5	-	(4)	-	(34)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(32)**	**(3)**	**5**	**-**	**(4)**	**-**	**(34)**

in HRK million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of
							BANK
	Jan 18						Dec 18
Stage 1	(29)	(2)	3	-	(4)	-	(32)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(29)**	**(2)**	**3**	**-**	**(4)**	**-**	**(32)**

20. Financial assets - held to maturity

						GROUP
	Gross carrying amount		Collective allowances		Net carrying amount	
in HRK million	2017	2018	2017	2018	2017	2018
Debt securities						
General governments	1,727	x	(4)	x	1,723	x
Non-financial corporations	159	x	(4)	x	155	x
Total	**1,886**	**x**	**(8)**	**x**	**1,878**	**x**

						BANK
	Gross carrying amount		Collective allowances		Net carrying amount	
in HRK million	2017	2018	2017	2018	2017	2018
Debt securities						
General governments	1,237	x	(1)	x	1,236	x
Non-financial corporations	159	x	(4)	x	155	x
Total	**1,396**	**x**	**(5)**	**x**	**1,391**	**x**

Listed bonds issued by the Republic of Croatia are fixed income debt securities denominated in HRK, EUR and USD. These bonds have maturities from 2018 to 2023 and bear coupon interest from 1.750% to 6.750% p.a. Bonds of Montenegro are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturity in 2020 and bear coupon interest of 4.000% p.a. Bonds of Zagrebački Holding are fixed income debt securities denominated in HRK and listed on stock exchanges. These bonds have maturity in 2023 and bear coupon interest of 3.875% p.a.

20. Financial assets - held to maturity (continued)

The fair value of financial investments held to maturity for the Group and the Bank is approximately HRK 46 million higher than their value as at 31 December 2017.

Allowances for financial assets – held to maturity

						GROUP
in HRK million	As at	Allocations	Uses	Releases	Exchange-rate and other changes (+/-)	As at
	2016					2017
Collective allowances						
Debt securities	(8)	-	-	-	-	(8)
General governments	(4)	-	-	-	-	(4)
Non-financial corporations	(4)	-	-	-	-	(4)
Total	**(8)**	**-**	**-**	**-**	**-**	**(8)**

						BANK
in HRK million	As at	Allocations	Uses	Releases	Exchange-rate and other changes (+/-)	As at
	2016					2017
Collective allowances						
Debt securities	(5)	-	-	-	-	(5)
General governments	(1)	-	-	-	-	(1)
Non-financial corporations	(4)	-	-	-	-	(4)
Total	**(5)**	**-**	**-**	**-**	**-**	**(5)**

21. Securities

										GROUP
	Financial assets					Financial assets				
	Loans to and receivables from customers and credit institutions	Held for trading	Available for sale	Held to maturity	Total	At AC	Trading assets	mandatorily at FVPL	At FVOCI	Total
in HRK million					2017					2018
Bonds and other interest-bearing securities	**-**	**195**	**7,756**	**1,878**	**9,829**	**1,273**	**245**	**154**	**8,491**	**10,163**
Listed	-	195	7,566	1,878	9,639	1,273	245	147	8,316	9,981
Unlisted	-	-	190	-	190	-	-	7	175	182
Equity-related securities	**-**	**-**	**243**	**-**	**243**	**-**	**-**	**9**	**111**	**120**
Listed	-	-	146	-	146	-	-	-	-	
Unlisted	-	-	97	-	97	-	-	9	111	120
Equity holdings	**-**	**-**	**19**	**-**	**19**	**-**	**-**	**2**	**-**	**2**
Total	**-**	**195**	**8,018**	**1,878**	**10,091**	**1,273**	**245**	**165**	**8,602**	**10,285**

21. Securities (continued)

BANK

in HRK million	Financial assets: Loans to and receivables from customers and credit institutions	Held for trading	Available for sale	Held to maturity	Total 2017	Financial assets: At AC	Trading assets	mandatorily at FVPL	At FVOCI	Total 2018
Bonds and other interest-bearing securities	**-**	**195**	**7,352**	**1,391**	**8,938**	**1,020**	**245**	**14**	**7,875**	**9,154**
Listed	-	195	7,275	1,391	8,861	1,020	245	7	7,690	8,962
Unlisted	-	-	77	-	77	-	-	7	185	192
Equity-related securities	**-**	**-**	**97**	**-**	**97**	**-**	**-**	**9**	**102**	**111**
Listed	-	-	8	-	8	-	-	-	-	
Unlisted	-	-	89	-	89	-	-	9	102	111
Equity holdings	**-**	**-**	**19**	**-**	**19**	**-**	**-**	**-**	**-**	
Total	**-**	**195**	**7,468**	**1,391**	**9,054**	**1,020**	**245**	**23**	**7,977**	**9,265**

Starting with 2018 investment funds units are reported within bonds and other interest bearing securities. As of December 31, 2017 they have been disclosed under equity-related securities.

Financial assets at amortised cost include bonds and other interest-bearing securities that are quoted in active markets and are intended to be held to maturity.

Securities lending and repurchase transactions are disclosed in Note 41. Transfers of financial assets-repurchase transactions and securities lending.

22. Loans to and receivables from credit institutions

Loans to and receivables from credit institutions

GROUP

in HRK million	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
2017				
Loans and advances	5,235	-	(2)	5,233
Central banks	3,417	-	(1)	3,416
Credit institutions	1,818	-	(1)	1,817
Total	**5,235**	**-**	**(2)**	**5,233**

22. Loans to and receivables from credit institutions (continued)

Allowances for loans to and receivables from credit institutions

									GROUP
in HRK million	As at	Allocations	Use	Releases	Interest income from impaired loans	Exchange-rate and other changes (+/-)	As at	Amounts written off	Recoveries of amounts previously written off
	2016						2017		
Specific allowances									
Loans and advances	-	(2)	-	2	-	-	-	-	-
Credit institutions	-	(2)	-	2	-	-	-	-	-
Collective allowances									
Loans and advances	(3)	(15)	-	16	-	-	(2)	-	-
Central banks	(1)	-	-	-	-	-	(1)	-	-
Credit institutions	(2)	(15)	-	16	-	-	(1)	-	-
Total	**(3)**	**(17)**	**-**	**18**	**-**	**-**	**(2)**	**-**	**-**

				BANK
in HRK million	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
2017				
Loans and advances	5,134	-	(2)	5,132
Central banks	3,324	-	(1)	3,323
Credit institutions	1,810	-	(1)	1,809
Total	**5,134**	**-**	**(2)**	**5,132**

With respect to the Decision on Reserve Requirement imposed by the CNB, the Bank is obliged to calculate and maintain an obligatory reserve for sources of funding. Received deposits and loans, issued debt securities, hybrid and subordinated instruments and other financial liabilities are the base for reserve requirement calculation. Calculation period lasts from the first to the last day of a calendar month.

The reserve requirement calculation rate is 12%.
In the calculation, 75% of total calculated foreign currency obligatory reserve is included into calculated HRK component of reserve requirement and is allocated in HRK.
70% of HRK reserve requirements is allocated on special account with the CNB, while the remaining 30% is to be maintained through average daily balances in the settlement account and in the clearing account with the NCS. Percentage for allocating FCY reserve requirement is 0%, while maintenance shall be carried out through average daily balances of liquid foreign currency claims against OECD countries and credit institutions in OECD countries (with lowest rating criteria as defined by CNB), funds in own foreign currency settlement accounts with the CNB and foreign currency cash and cheques denominated in FCY.

Allowances for loans to and receivables from credit institutions

									BANK
in HRK million	As at	Allocations	Use	Releases	Interest income from impaired loans	Exchange-rate and other changes (+/-)	As at	Amounts written off	Recoveries of amounts previously written off
	2016						2017		
Specific allowances									
Loans and advances	-	(2)	-	2	-	-	-	-	-
Credit institutions	-	(2)	-	2	-	-	-	-	-
Collective allowances									
Loans and advances	(2)	(15)	-	15	-	-	(2)	-	-
Central banks	(1)	-	-	-	-	-	(1)	-	-
Credit institutions	(1)	(15)	-	15	-	-	(1)	-	-
Total	**(2)**	**(17)**	**-**	**17**	**-**	**-**	**(2)**	**-**	**-**

23. Loans to and receivables from customers

Loans to and receivables from customers

				GROUP
in HRK million	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
2017				
Loans and advances to customers	47,432	(3,645)	(490)	43,297
General governments	7,933	-	(25)	7,908
Other financial corporations	801	(3)	(3)	795
Non-financial corporations	18,319	(2,385)	(276)	15,658
Households	20,379	(1,257)	(186)	18,936
Total	**47,432**	**(3,645)**	**(490)**	**43,297**

Allowances for loans to and receivables from customers

									GROUP
in HRK million	As at	Allocations	Use	Releases	Interest income from impaired loans	Exchange-rate and other changes(+/-)	As at	Recoveries of amounts previously written off	Amounts written off
	2016						**2017**		
Specific allowances									
Loans and advances to customers	(3,376)	(1,854)	634	866	69	16	(3,645)	140	(7)
General governments	(1)	-	-	1	-	-	-	-	-
Other financial corporations	(7)	(52)	51	5	-	-	(3)	-	-
Non-financial corporations	(2,005)	(1,327)	389	504	30	24	(2,385)	39	(2)
Households	(1,363)	(475)	194	356	39	(8)	(1,257)	101	(5)
Collective allowances									
Loans and advances to customers	(479)	(669)	-	662	-	(4)	(490)	-	-
General governments	(27)	(8)	-	10	-	-	(25)	-	-
Other financial corporations	(3)	(14)	-	14	-	-	(3)	-	-
Non-financial corporations	(268)	(365)	-	360	-	(3)	(276)	-	-
Households	(181)	(282)	-	278	-	(1)	(186)	-	-
Total	**(3,855)**	**(2,523)**	**634**	**1,528**	**69**	**12**	**(4,135)**	**140**	**(7)**

23. Loans to and receivables from customers (continued)

Loans to and receivables from customers

				BANK
in HRK million	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
2017				
Loans and advances to customers	39,626	(2,746)	(368)	36,512
General governments	7,647	-	(23)	7,624
Other financial corporations	1,155	(2)	(2)	1,151
Non-financial corporations	14,354	(1,782)	(244)	12,328
Households	16,470	(962)	(99)	15,409
Total	**39,626**	**(2,746)**	**(368)**	**36,512**

Allowances for loans to and receivables from customers

									BANK
in HRK million	As at	Allocations	Use	Releases	Interest income from impaired loans	Exchange-rate and other changes (+/-)	As at	Recoveries of amounts previously written off	Amounts written off
	2016						2017		
Specific allowances									
Loans and advances to customers	(2,787)	(1,050)	452	544	64	31	(2,746)	94	(5)
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	(2)	-	-	-	-	-	(2)	-	-
Non-financial corporations	(1,803)	(666)	340	298	28	21	(1,782)	34	(2)
Households	(982)	(384)	112	246	36	10	(962)	60	(3)
Collective allowances									
Loans and advances to customers	(349)	(525)	-	506	-	-	(368)	-	-
General governments	(26)	(6)	-	9	-	-	(23)	-	-
Other financial corporations	(5)	(15)	-	18	-	-	(2)	-	-
Non-financial corporations	(218)	(286)	-	260	-	-	(244)	-	-
Households	(100)	(218)	-	219	-	-	(99)	-	-
Total	**(3,136)**	**(1,575)**	**452**	**1,050**	**64**	**31**	**(3,114)**	**94**	**(5)**

24. Financial assets at amortised cost

Debt securities at amortised cost

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 2018 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
2018									
General governments	1,275	-	-	1,275	(2)	-	-	(2)	1,273
Total	**1,275**	**-**	**-**	**1,275**	**(2)**	**-**	**-**	**(2)**	**1,273**

									BANK
	GCA				CLA				
in HRK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2018									
General governments	1,021	-	-	1,021	(1)	-	-	(1)	1,020
Total	**1,021**	**-**	**-**	**1,021**	**(1)**	**-**	**-**	**(1)**	**1,020**

Listed bonds issued by the Republic of Croatia are fixed income debt securities denominated in HRK, EUR and USD. These bonds have maturities from 2019 to 2025 and bear coupon interest from 1.750% to 6.750% p.a. The fair value of financial assets at amortised cost for the Group and the Bank is approximately HRK 20.5 million higher than their value as at 31 December 2018 (2017: HRK 46 million higher regarding the year 2016).

There are no purchased or originated credit-impaired (POCI) debt securities at AC as of 31 December 2018.

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	Other changes in credit risk (net)	Other	As of
	Jan 2018						Dec 2018
Stage 1	(2)	-	1	-	(1)	-	(2)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(2)**	**-**	**1**	**-**	**(1)**	**-**	**(2)**

24. Financial assets at amortised cost (continued)

Debt securities at amortised cost (continued)

							BANK
in HRK million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 2018						Dec 2018
Stage 1	(1)	-	1	-	(1)	-	(1)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(1)**	**-**	**1**	**-**	**(1)**	**-**	**(1)**

The year-end total GCAs of AC debt securities that were initially recognized (purchased) during the year 2018 and not sold by 31 December 2018 amounts to 89 HRK million for the Group and for the Bank.
The GCA of AC debt securities that were held at 1 January 2018 and de-recognized (matured) during the year 2018 amounts to 468 HRK million for the Group and for the Bank.

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 2018 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
2018									
Central banks	3,635	-	-	3,635	(2)	-	-	(2)	3,633
Credit institutions	1,599	-	-	1,599	(4)	-	-	(4)	1,595
Total	**5,234**	**-**	**-**	**5,234**	**(6)**	**-**	**-**	**(6)**	**5,228**

									BANK
	GCA				CLA				
in HRK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2018									
Central banks	3,542	-	-	3,542	(1)	-	-	(1)	3,541
Credit institutions	1,772	-	-	1,772	(4)	-	-	(4)	1,768
Total	**5,314**	**-**	**-**	**5,314**	**(5)**	**-**	**-**	**(5)**	**5,309**

There are no purchased or originated credit-impaired (POCI) AC loans and advances to banks at 31 December 2018.

24. 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**	**Additions**	**Derecognitions**	**Transfers between stages**	**Other changes in credit risk (net)**	**Other**	**As of**
	Jan 2018						**Dec 2018**
Stage 1	(5)	(4)	3	-	-	-	(6)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(5)**	**(4)**	**3**	**-**	**-**	**-**	**(6)**

							BANK
in HRK million	**As of**	**Additions**	**Derecognitions**	**Transfers between stages**	**Other changes in credit risk (net)**	**Other**	**As of**
	Jan 2018						**Dec 2018**
Stage 1	(4)	(4)	2	-	1	-	(5)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(4)**	**(4)**	**2**	**-**	**1**	**-**	**(5)**

The year-end total GCA of AC loans and advances to banks that were initially recognized during the year 2018 and not fully de-recognized by 31 December 2018 amounts to 1,575 HRK million for the Group and 1,752 HRK million for the Bank. The GCA of AC loans and advances to banks that were held at 1 January 2018 and fully derecognized (matured) during the year 2018 amounts to 2,110 HRK million for the Group and 1,883 HRK million for the Bank.

24. Financial assets at amortised cost (continued)

Loans and advances at amortized 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 2018 is provided in the table below:

											GROUP
	GCA					CLA					
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2018											
General governments	8,089	13	-	-	8,102	(104)	-	-	-	(104)	7,998
Other financial corporations	479	11	1	-	491	(18)	(1)	(1)	-	(20)	471
Non-financial corporations	13,699	586	1,965	441	16,691	(105)	(55)	(1,302)	(44)	(1,506)	15,185
Households	17,124	2,122	1,626	10	20,882	(89)	(122)	(1,146)	(2)	(1,359)	19,523
Total	**39,391**	**2,732**	**3,592**	**451**	**46,166**	**(316)**	**(178)**	**(2,449)**	**(46)**	**(2,989)**	**43,177**

											BANK
	GCA					CLA					
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2018											
General governments	7,921	13	-	-	7,934	(101)	-	-	-	(101)	7,833
Other financial corporations	811	190	1	-	1,002	(19)	(2)	(1)	-	(22)	980
Non-financial corporations	13,012	509	1,889	441	15,851	(94)	(52)	(1,246)	(44)	(1,436)	14,415
Households	14,798	1,483	1,471	10	17,762	(62)	(107)	(1,033)	(2)	(1,204)	16,558
Total	**36,542**	**2,195**	**3,361**	**451**	**42,549**	**(276)**	**(161)**	**(2,280)**	**(46)**	**(2,763)**	**39,786**

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

24. Financial assets at amortised cost (continued)

Loans and advances at amortized cost to customers (continued)

GROUP

in HRK million	As of	Additions	Derecogni tions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	As of
	Jan 2018								Dec 2018
Stage 1	**(332)**	**(156)**	**117**	**43**	**9**	**-**	**-**	**3**	**(316)**
General governments	(105)	(68)	67	2	(1)	-	-	1	(104)
Other financial corporations	(26)	(18)	24	-	1	-	-	1	(18)
Non-financial corporations	(122)	(40)	16	13	27	-	-	1	(105)
Households	(79)	(30)	10	28	(18)	-	-	-	(89)
Stage 2	**(151)**	**(3)**	**17**	**(101)**	**59**	**-**	**-**	**1**	**(178)**
General governments	(3)	-	-	-	3	-	-	-	-
Other financial corporations	(1)	-	-	-	-	-	-	-	(1)
Non-financial corporations	(60)	(2)	10	(29)	25	-	-	1	(55)
Households	(87)	(1)	7	(72)	31	-	-	-	(122)
Stage 3	**(3,012)**	**(55)**	**179**	**(21)**	**(244)**	**-**	**681**	**23**	**(2,449)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	(2)	-	-	-	1	-	-	-	(1)
Non-financial corporations	(1,761)	(51)	109	(13)	(117)	-	514	17	(1,302)
Households	(1,249)	(4)	70	(8)	(128)	-	167	6	(1,146)
POCI	**(32)**	**-**	**-**	**-**	**(34)**	**-**	**20**	**-**	**(46)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(32)	-	-	-	(32)	-	20	-	(44)
Households	-	-	-	-	(2)	-	-	-	(2)
Total	**(3,527)**	**(214)**	**313**	**(79)**	**(210)**	**-**	**701**	**27**	**(2,989)**

BANK

in HRK million	As of	Additions	Derecognitio ns	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	As of
	Jan 18								Dec 18
Stage 1	**(280)**	**(145)**	**110**	**37**	**(2)**	**-**	**-**	**4**	**(276)**
General governments	(99)	(68)	67	2	(4)	-	-	1	(101)
Other financial corporations	(26)	(19)	24	-	1	-	-	1	(19)
Non-financial corporations	(103)	(35)	13	12	18	-	-	1	(94)
Households	(52)	(23)	6	23	(17)	-	-	1	(62)
Stage 2	**(133)**	**(3)**	**16**	**(95)**	**53**	**-**	**-**	**1**	**(161)**
General governments	(3)	-	-	-	3	-	-	-	-
Other financial corporations	-	-	-	(1)	(1)	-	-	-	(2)
Non-financial corporations	(56)	(2)	10	(28)	23	-	-	1	(52)
Households	(74)	(1)	6	(66)	28	-	-	-	(107)
Stage 3	**(2,784)**	**(55)**	**176**	**(18)**	**(239)**	**-**	**618**	**22**	**(2,280)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	(1)	-	-	-	-	-	-	-	(1)
Non-financial corporations	(1,700)	(51)	108	(12)	(112)	-	505	16	(1,246)
Households	(1,083)	(4)	68	(6)	(127)	-	113	6	(1,033)
POCI	**(32)**	**-**	**-**	**-**	**(34)**	**-**	**20**	**-**	**(46)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(32)	-	-	-	(32)	-	20	-	(44)
Households	-	-	-	-	(2)	-	-	-	(2)
Total	**(3,229)**	**(203)**	**302**	**(76)**	**(222)**	**-**	**638**	**27**	**(2,763)**

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 2018 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2018 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 fa-vourable (incremental year-on-year releases) and presented in the line 'Stage 1'.

24. Financial assets at amortised cost (continued)

Loans and advances at amortized cost to customers (continued)

The P&L-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)’. 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 42 HRK million for the Group and 28 HRK million for the Bank cumulatively for the year 2018, 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. The year-end GCA of AC loans and advances to customers that were assigned at 31 December 2018 to a different stage compared to 1 January 2018 (or to the initial recognition date, if originated during the year) are summarized below:

GCA transfers between impairment stages for loans and advances at amortized 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
General governments	6	91	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-
Non-financial corporations	364	214	49	24	314	6	-	1
Households	1,278	476	143	37	195	34	-	-
Total	**1,648**	**781**	**192**	**61**	**509**	**40**	**-**	**1**

								BANK
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		POCI	
in HRK million	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3	To Defaulted from Non-Defaulted	To Non-Defaulted from Defaulted
General governments	6	91	-	-	-	-	-	-
Other financial corporations	190	-	-	-	-	-	-	-
Non-financial corporations	304	198	47	24	296	4	-	1
Households	778	292	120	35	161	29	-	-
Total	**1,278**	**581**	**167**	**59**	**457**	**33**	**-**	**1**

The year-end total GCA of the AC loans and advances to customers that were initially recognized during the year 2018 and not fully de-recognized by 31 December 2018 amounts to 17,973 HRK million for the Group and 17,604 HRK million for the Bank. The GCA of the AC loans and advances to customers that were held at 1 January 2018 and fully de-recognized (mainly due to matured) during the year 2018 amounts to 8,242 HRK million for the Group and 7,959 HRK 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 2018 amounted to 83 HRK million for the Group and 67 HRK million for the Bank.

25. Finance lease receivables

The analysis of the GCA and of related CLA of finance lease receivables per impairment buckets as of 31 December 2018 is provided in the table below:

	GROUP										
	GCA					CLA					
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2018											
Central banks	-	-	-	-	-	-	-	-	-	-	-
General governments	20	-	-	-	20	-	-	-	-	-	20
Credit institutions	2	-	-	-	2	-	-	-	-	-	2
Other financial corporations	12	-	-	-	12	-	-	-	-	-	12
Non-financial corporations	1,558	86	48	-	1,692	(4)	(2)	(18)	-	(24)	1,668
Households	334	43	3	-	380	-	(1)	(1)	-	(2)	378
Total	**1,926**	**129**	**51**	**-**	**2,106**	**(4)**	**(3)**	**(19)**	**-**	**(26)**	**2,080**

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	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	As of
	Jan 2018								Dec 2018
Stage 1	(4)	(5)	2	4	(3)	-	-	2	(4)
Stage 2	(6)	-	-	(1)	3	-	-	1	(3)
Stage 3	(19)	-	2	(4)	5	-	-	(3)	(19)
POCI	-	-	-	-	-	-	-	-	-
Total	**(29)**	**(5)**	**4**	**(1)**	**5**	**-**	**-**	**-**	**(26)**

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 2018 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2018 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 allo-cations) 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 P&L-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)'.

25. Finance lease 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 finance lease receivables that were assigned at 31 December 2018 to a different stage compared to 1 January 2018 (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	**2018**
Transfers between Stage 1 and Stage 2	**178**
To Stage 2 from Stage 1	60
To Stage 1 from Stage 2	118
Transfers between Stage 2 and Stage 3	**3**
To Stage 3 from Stage 2	-
To Stage 2 from Stage 3	3
Transfers between Stage 1 and Stage 3	**24**
To Stage 3 from Stage 1	4
To Stage 1 from Stage 3	20

The year-end total GCA of the finance lease receivables that were initially recognized during the year 2018 and not fully de-recognized by 31 December 2018 amounts to 1,019 HRK million for the Group and nil for the Bank. The GCA of the finance lease receivables that were held at 1 January 2018 and fully de-recognized (matured) during the year 2018 amounts to 168 HRK million for the Group and nil for the Bank.

In 2018, presentation for finance lease receivables are disclosed separately, while in 2017 they have been disclosed within Loans and advances to banks and Loand and advances form customers.

26. Trade and other receivables

GROUP

in HRK million	GCA					CLA					
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2018											
General governments	68	-	-	-	68	-	-	-	-	-	68
Credit institutions	68	137	-	-	205	-	-	-	-	-	205
Other financial corporations	6	4	-	-	10	-	-	-	-	-	10
Non-financial corporations	487	24	436	9	956	(4)	(1)	(311)	-	(316)	640
Households	368	158	124	-	650	(16)	(31)	(101)	-	(148)	502
Total	**997**	**323**	**560**	**9**	**1,889**	**(20)**	**(32)**	**(412)**	**-**	**(464)**	**1,425**

BANK

in HRK million	GCA					CLA					
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2018											
General governments	6	-	-	-	6	-	-	-	-	-	6
Credit institutions	67	137	-	-	204	-	-	-	-	-	204
Other financial corporations	10	4	-	-	14	-	-	-	-	-	14
Non-financial corporations	65	12	29	-	106	-	-	(26)	-	(26)	80
Households	1	3	23	-	27	-	-	(22)	-	(22)	5
Total	**149**	**156**	**52**	**-**	**357**	**-**	**-**	**(48)**	**-**	**(48)**	**309**

Allowances for trade and other receivables

GROUP

in HRK million	As of	Additions	Derecogni-tions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	As of
	Jan 2018								Dec 2018
Stage 1	(29)	(8)	11	2	4	-	-	-	(20)
Stage 2	(27)	(1)	3	(8)	1	-	-	-	(32)
Stage 3	(675)	(12)	34	(2)	(105)	-	348	-	(412)
POCI	-	-	-	-	-	-	-	-	-
Total	**(731)**	**(21)**	**48**	**(8)**	**(100)**	**-**	**348**	**-**	**(464)**

BANK

in HRK million	As of	Additions	Derecogni-tions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	As of
	Jan 2018								Dec 2018
Stage 1	-	-	-	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-	-	-	-
Stage 3	(52)	(1)	2	-	(10)	-	13	-	(48)
POCI	-	-	-	-	-	-	-	-	-
Total	**(52)**	**(1)**	**2**	**-**	**(10)**	**-**	**13**	**-**	**(48)**

26. 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 at 31 December 2018 to a different stage compared to 1 January 2018 (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	2018
Transfers between Stage 1 and Stage 2	**372**
To Stage 2 from Stage 1	277
To Stage 1 from Stage 2	95
Transfers between Stage 2 and Stage 3	**34**
To Stage 3 from Stage 2	27
To Stage 2 from Stage 3	7
Transfers between Stage 1 and Stage 3	**29**
To Stage 3 from Stage 1	29
To Stage 1 from Stage 3	-

	BANK
in HRK million	2018
Transfers between Stage 1 and Stage 2	**150**
To Stage 2 from Stage 1	135
To Stage 1 from Stage 2	15
Transfers between Stage 2 and Stage 3	**1**
To Stage 3 from Stage 2	1
To Stage 2 from Stage 3	-
Transfers between Stage 1 and Stage 3	**1**
To Stage 3 from Stage 1	1
To Stage 1 from Stage 3	-

The year-end total GCA of the trade and other receivables that were initially recognized during the year 2018 and not fully de-recognized by 31 December 2018 amounts to 62 HRK million for the Group and 20 HRK million for the Bank. The GCA of the trade and other receivables that were held at 1 January 2018 and fully de-recognized (matured) during the year 2018 amounts to 1,042 HRK million for the Group and 20 HRK million for the Bank.

In 2018, presentation for trade and other receivables are disclosed separately, while in 2017 they have been disclosed within Loans and advances to banks and Loand and advances form customers.

27. Debt instruments at amortised cost or fair value through other comprehensive income subject to contractual modifications

As at 31 December 2018, the total GCA of debt instruments measured at AC or FVOCI, which were impacted by non-significant contractual modifications during the year 2018 amounted to 21 HRK million for the Group and for the Bank.

The impact of contractual modifications (net modification losses) in the profit or loss of the year 2018 amounted to 328 HRK thousand for the Group and for the Bank.

		GROUP
in HRK million	Amortized cost before the modification	Net Modification gains/ losses
2018		
Loans and advances	-	-
Non-financial corporations	17	-
Households	4	-
Total	**21**	**-**

		BANK
in HRK million	Amortized cost before the modification	Net Modification gains/ losses
2018		
Loans and advances	-	-
Non-financial corporations	17	-
Households	4	-
Total	**21**	**-**

28. Investment in subsidiaries and associates

Subsidiaries	Main business activity	Ownership % held		Group's share of net assets		Investment at cost less impairment	
in HRK million		2017	2018	2017	2018	2017	2018
Erste Nekretnine d.o.o.	Real estate business	100%	100%	5	8	1	1
Erste Factoring d.o.o.	Accounts receivables repurchase	74.996%	100%	23	8	17	99
Erste Card Club d.o.o.	Financial intermediation and services	100%	100%	907	1,070	703	659
Izbor Nekretnina d.o.o.	Real estate management and lease	100%	100%	40	40	39	39
Erste Bank AD, Podgorica	Credit institution	100%	100%	512	561	100	100
Erste&Steiermarkische S-leasing d.o.o.	Leasing company	50%	50%	299	337	89	89
Erste Group IT HR d.o.o.	IT engineering	80%	80%	7	8	2	2
Direct control				1,793	2,032	951	989
Erste Card d.o.o. Slovenia	Financial intermediation and services	100%	100%	18	21	24	24
Diners Club International Mak d.o.o.e.l.	Financial intermediation and services	100%	100%	(3)	13	7	7
Indirect control				15	34	31	31
Total subsidiaries:				**1,808**	**2,066**	**982**	**1,020**

28. Investment in subsidiaries and associates (continued)

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.
Impairment losses on investment in subsidiaries in the amount of HRK 44 million were recognised during 2018 and HRK 28 million during 2017. In 2018 impairment was allocated on the investment in Erste Card Club d.o.o. Impairment in 2017 was allocated on the investment in Erste Factoring d.o.o. in amount of HRK 21 million and HRK 7 million on Diners Club International Mak d.o.o.e.l.

Associates	S Immorent Zeta d.o.o.		Erste d.o.o.	
in HRK million	2017	2018	2017	2018
Country of Incorporation	Croatia	Croatia	Croatia	Croatia
Place of business	Croatia	Croatia	Croatia	Croatia
Main business activity	Real estate business		Management company for obligatory and voluntary pension fund	
Ownership % held	49%	49%	45.86%	45.86%
IFRS Classification	Associate	Associate	Associate	Associate
Reporting currency	HRK	HRK	HRK	HRK
Dividend income received	-	-	9	10
Impairment loss recognized (cumulative basis)	12	12	10	10
Impairment loss recognized (for the reporting year)	12	-	-	-
Investee's key financial information for the reporting year (as at reporting-year-end)				
Financial assets	-	1	106	112
Other assets	1	-	13	8
Financial liabilities	(1)	-	-	-
Other liabilities	-	-	(9)	(9)
Revenue	-	-	70	69
Expense	-	-	(46)	(39)
Investment at cost	-	-	38	38
Reconciliation of investee's net assets against equity investment's carrying amount	-	-	22	22
Net assets attributable to the Group	-	-	60	60

29. Property, equipment and Investment properties

A) COST

						GROUP
	Property and equipment - Acquisition costs					
in HRK million	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 1 January 2017	**848**	**311**	**291**	**902**	**2,352**	**73**
Additions (+)	32	42	54	117	245	2
Disposals (-)	(1)	(27)	(43)	(297)	(368)	(16)
Acquisition of subsidiaries (+)	4	2	2	-	8	-
Reclassification (+/-)	(10)	(1)	2	(2)	(11)	11
Balance as at 31 December 2017	**873**	**327**	**306**	**720**	**2,226**	**70**
Additions (+)	20	36	115	98	269	3
Disposals (-)	(8)	(27)	(59)	(223)	(316)	(8)
Balance as at 31 December 2018	**885**	**336**	**362**	**595**	**2,179**	**65**

B) ACCUMULATED DEPRECIATION

						GROUP
	Property and equipment - Accumulated depreciation					
in HRK million	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 1 January 2017	**(241)**	**(242)**	**(205)**	**(355)**	**(1,043)**	**(14)**
Depreciation (-)	(17)	(21)	(32)	(120)	(190)	(2)
Disposals (+)	-	25	43	204	272	-
Acquisition of subsidiaries (-)	(1)	(1)	(2)	-	(4)	-
Reclassification (+/-)	1	-	-	-	1	(1)
Balance as at 31 December 2017	**(258)**	**(239)**	**(196)**	**(271)**	**(964)**	**(17)**
Depreciation (-)	(19)	(24)	(44)	(95)	(182)	(1)
Disposals (+)	4	25	51	133	213	2
Balance as at 31 December 2018	**(273)**	**(238)**	**(189)**	**(233)**	**(933)**	**(16)**

C) CARRYING AMOUNTS

						GROUP
	Property and equipment					
in HRK million	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 31 December 2017	**615**	**88**	**110**	**449**	**1,262**	**53**
Balance as at 31 December 2018	**612**	**98**	**173**	**362**	**1,245**	**49**

29. Property, equipment and Investment properties (continued)

A) COST

						BANK
	Property and equipment - Acquisition costs					
in HRK million	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 1 January 2017	**695**	**261**	**87**	**-**	**1,043**	**49**
Additions (+)	11	29	35	-	75	-
Disposals (-)	(2)	(19)	(18)	-	(39)	(15)
Reclassification (+/-)	-	-	-	-	-	-
Balance as at 31 December 2017	**704**	**271**	**104**	**-**	**1,079**	**34**
Additions (+)	20	34	89	-	143	3
Disposals (-)	(7)	(22)	(11)	-	(40)	(7)
Balance as at 31 December 2018	**717**	**283**	**182**	**-**	**1,182**	**30**

B) ACCUMULATED DEPRECIATION

						BANK
	Property and equipment - Accumulated depreciation					
in HRK million	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 1 January 2017	**(223)**	**(205)**	**(67)**	**-**	**(495)**	**(13)**
Depreciation (-)	(15)	(16)	(7)	-	(38)	(1)
Disposals (+)	1	17	19	-	37	-
Balance as at 31 December 2017	**(237)**	**(204)**	**(55)**	**-**	**(496)**	**(14)**
Depreciation (-)	(15)	(19)	(18)	-	(52)	(1)
Disposals (+)	4	20	11	-	35	2
Balance as at 31 December 2018	**(248)**	**(203)**	**(62)**	**-**	**(513)**	**(13)**

C) CARRYING AMOUNTS

						BANK
	Property and equipment					
in HRK million	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 31 December 2017	**467**	**67**	**49**	**-**	**583**	**20**
Balance as at 31 December 2018	**469**	**80**	**120**	**-**	**669**	**17**

The carrying amount of expenditure recognised in the items fixed assets during their construction in 2018 is HRK 58 million for the Group and the Bank (2017: HRK 19 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 2018 (2017 HRK 4 million for the Group and the Bank).
Tangible asset under operating leasing in Erste Leasing amounted to HRK 364 million as at 31 December 2018 (2017: HRK 451 million).

30. Intangible assets

A) COST

GROUP					
		Acquisition costs			
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2017	**603**	**181**	**249**	**144**	**1,177**
Additions (+)	4	-	20	26	50
Disposals (-)	-	-	(1)	(9)	(10)
Acquisition of subsidiaries (+)	-	-	-	2	2
Reclassification (+/-)	-	-	(51)	51	-
Balance as at 31 December 2017	**607**	**181**	**217**	**214**	**1,219**
Additions (+)	-	-	24	47	71
Disposals (-)	-	-	(4)	(3)	(7)
Balance as at 31 December 2018	**607**	**181**	**237**	**258**	**1,283**

B) ACCUMULATED AMORTIZATION

GROUP					
		Accumulated depreciation			
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2017	**(387)**	**(181)**	**(106)**	**(113)**	**(787)**
Amortisation (-)	-	-	(19)	(17)	(36)
Disposals (+)	-	-	-	2	2
Acquisition of subsidiaries (-)	-	-	-	(1)	(1)
Impairment (-)	(4)	-	-	-	(4)
Reclassification (+/-)	-	-	17	(17)	-
Balance as at 31 December 2017	**(391)**	**(181)**	**(108)**	**(146)**	**(826)**
Amortisation (-)	-	-	(22)	(23)	(45)
Disposals (+)	-	-	1	3	4
Impairment (-)	(44)	-	-	-	(44)
Balance as at 31 December 2018	**(435)**	**(181)**	**(129)**	**(166)**	**(911)**

C) CARRYING AMOUNTS

GROUP					
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 31 December 2017	**216**	**-**	**109**	**68**	**393**
Balance as at 31 December 2018	**172**	**-**	**108**	**92**	**372**

Goodwill and customer relationship carrying amount in whole relates to Erste Card Club d.o.o.

30. Intangible assets (continued)

A) AT COST

in HRK million	Goodwill	Acquisition costs Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
					BANK
Balance as at 1 January 2017	**-**	**-**	**161**	**85**	**246**
Additions (+)	-	-	11	9	20
Disposals (-)	-	-	-	-	-
Reclassification (+/-)	-	-	-	-	-
Balance as at 31 December 2017	**-**	**-**	**172**	**94**	**266**
Additions (+)	-	-	14	18	32
Disposals (-)	-	-	-	(3)	(3)
Balance as at 31 December 2018	**-**	**-**	**186**	**109**	**295**

B) ACCUMULATED AMORTIZATION

in HRK million	Goodwill	Accumulated depreciation Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
					BANK
Balance as at 1 January 2017	**-**	**-**	**(66)**	**(70)**	**(136)**
Amortisation (-)	-	-	(16)	(3)	(19)
Disposals (+)	-	-	-	-	-
Reclassification (+/-)	-	-	-	-	-
Balance as at 31 December 2017	**-**	**-**	**(82)**	**(73)**	**(155)**
Amortisation (-)	-	-	(17)	(5)	(22)
Disposals (+)	-	-	-	2	2
Balance as at 31 December 2018	**-**	**-**	**(99)**	**(76)**	**(175)**

C) CARRYING AMOUNTS

in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
					BANK
Balance as at 31 December 2017	**-**	**-**	**90**	**21**	**111**
Balance as at 31 December 2018	**-**	**-**	**87**	**33**	**120**

Software acquired column relates to core banking system.

30. Intangible assets (continued)

Goodwill

The goodwill impairment assessment for the year 2018 and 2017 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 2018 till 2023. Discount rate applied to determine the value in use was 13.30% (2017: 12.56%). Erste Card Club d.o.o. predicts a stable and moderate growth in operating revenues / profits in the next five years, but Management considers period after the year 2023 as significantly challengeable. Low rates of macroeconomic growth and low domestic CPI, increased regulatory requirements, development of new technologies together with digitalisation which represents a high challenge for credit card business and new foreign competition will impact the profitability of credit card operations after 2023. Due to these expectations the Management reduced the estimate of terminal growth rate which resulted in impairment of its investment in this subsidiary and an impairment of goodwill of Erste Card Club d.o.o. in consolidated financial statements in amount of HRK 44 million in 2018. In 2017 no impairment loss was identified for Erste Card Club d.o.o.

The following table shows the sensitivity analysis of the recoverable value dependent of investment in Erste Card Club d.o.o. for 2018 and 2017 on the main variables (terminal growth rate, beta factor and risk free rate):

2018		Risk free rate	
Beta Factor	0.1%	1.1%	2.1%
0.8	1.595	1.478	1.385
1.2	1.304	**1.240**	1.186
1.4	1.220	1.168	1.124

2018		Risk free rate	
TV growth rate	0.1%	1,1%	2.1%
2%	1.296	1.236	1.184
3%	1.305	**1.240**	1.186
4%	1.316	1.246	1.188

Amount by which recoverable amount is less than carrying amount in 2018 for Erste Card Club d.o.o. is HRK 44 million.

2017		Risk free rate	
Beta Factor	0.3%	1.3%	2.3%
0.8	1.641	1.497	1.381
1.1	1.371	**1.278**	1.201
1.4	1.194	1.129	1.074

2017		Risk free rate	
TV growth rate	0.3%	1.3%	2.3%
2%	1.339	1.253	1.181
3%	1.374	**1.278**	1.199
4%	1.420	1.309	1.220

31. Tax assets and liabilities

GROUP

in HRK million	Tax assets		Tax liabilities		Net variance 2018			
	As of Dec 2018	As of Jan 2018	As of Dec 2018	As of Jan 2018	Total	Through profit or loss	Through retained earnings	Through other comprehensive income
Temporary differences related to the following items:								
Trading Assets / Liabilities and Designation at fair value through Profit or Loss	6	9	-	-	(3)	(3)	-	-
Financial assets at fair value through other comprehensive income	-	-	(49)	(52)	3	-	-	3
Financial assets at amortised cost & trade & other receivables	160	164	-	(20)	16	(22)	38	-
Derivatives - Hedge Accounting	-	-	-	-	-	-	-	-
Property and equipment (useful life in tax law different)	1	1	-	(1)	1	1	-	-
Amortisation of investments in subsidiaries (tax-effective in subsequent years)	90	82	-	-	8	8	-	-
Financial liabilities measured at amortized cost (deposits and debt securities issued)	-	-	-	-	-	-	-	-
Long-term employee provisions (tax valuation different)	1	1	(1)	-	(1)	-	-	(1)
Other provisions (tax valuation different)	1	2	1	-	-	-	-	-
Tax loss carry-forward	-	-	-	-	-	-	-	-
Customer relationships, brands and other intangibles	-	-	-	-	-	-	-	-
Other	58	57	-	-	1	1	-	-
Impairment	(51)	(51)	-	-	-	-	-	-
Effect of netting gross deferred tax position	(47)	(70)	47	70	-	-	-	-
Total deferred taxes	**219**	**195**	**(2)**	**(3)**	**25**	**(15)**	**38**	**2**
Current taxes	**10**	**17**	**(106)**	**(139)**	**(239)**	**(239)**	**-**	**-**
Total taxes	**229**	**212**	**(108)**	**(142)**	**(214)**	**(254)**	**38**	**2**

BANK

in HRK million	Tax assets		Tax liabilities		Net variance 2018			
	As of Dec 2018	As of Jan 2018	As of Dec 2018	As of Jan 2018	Total	Through profit or loss	Through retained earnings	Through other comprehensive income
Temporary differences related to the following items:								
Trading Assets / Liabilities and Designation at fair value through Profit or Loss	6	9	-	-	(3)	(3)	-	-
Financial assets at fair value through other comprehensive income	-	-	(45)	(45)	-	-	-	-
Financial assets at amortised cost & trade & other receivables	15	-	-	(20)	35	(3)	38	-
Derivatives - Hedge Accounting	-	-	-	-	-	-	-	-
Property and equipment (useful life in tax law different)	-	-	-	-	-	-	-	-
Amortisation of investments in subsidiaries (tax-effective in subsequent years)	82	74	-	-	8	8	-	-
Financial liabilities measured at amortized cost (deposits and debt securities issued)	-	-	-	-	-	-	-	-
Long-term employee provisions (tax valuation different)	1	1	-	-	-	-	-	-
Other provisions (tax valuation different)	1	1	-	-	-	-	-	-
Tax loss carry-forward	-	-	-	-	-	-	-	-
Customer relationships, brands and other intangibles	-	-	-	-	-	-	-	-
Other	27	29	-	-	(2)	(2)	-	-
Impairment	-	-	-	-	-	-	-	-
Effect of netting gross deferred tax position	(45)	(65)	45	65	-	-	-	-
Total deferred taxes	**87**	**49**	**-**	**-**	**38**	**-**	**38**	**-**
Current taxes	**-**	**-**	**(81)**	**(132)**	**(196)**	**(196)**	**-**	**-**
Total taxes	**87**	**49**	**(81)**	**(132)**	**(158)**	**(196)**	**38**	**-**

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. Temporary differences as at 31 December 2018 and 2017 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

32. Other assets

	GROUP		BANK	
in HRK million	**2017**	**2018**	**2017**	**2018**
Prepayments and accrued income	19	16	7	4
Allowances for impairment	-	-	-	-
Inventories	561	485	527	453
Value adjustments of inventories	(97)	(82)	(75)	(57)
Sundry assets	111	135	33	28
Other assets	**594**	**554**	**492**	**428**

In the line Inventories the Group holds collateral obtained in foreclosure procedures which the Group has the intention to sell in upcoming years.
In 2018 the Group and the Bank recognised write down of inventories in amount of HRK 14 million (2017: HRK 9 million) and HRK 8 million (2017: HRK 4 million), respectively.

33. Financial liabilities measured at amortised costs

Deposits from banks

	GROUP		BANK	
in HRK million	**2017**	**2018**	**2017**	**2018**
Overnight deposits	624	384	732	381
Term deposits	9,086	7,282	4,381	3,436
Subordinated loan	1,281	1,265	1,281	1,265
Repurchase agreements	34	-	-	-
Deposits from banks	**11,025**	**8,931**	**6,394**	**5,082**

33. Financial liabilities measured at amortised costs (continued)

Deposits from customers

	GROUP		BANK	
in HRK million	**2017**	**2018**	**2017**	**2018**
Overnight deposits	**19,599**	**25,831**	**18,393**	**24,683**
Savings deposits	1,554	1,700	1,554	1,700
Other financial corporations	4	1	4	1
Non-financial corporations	431	370	431	370
Households	1,119	1,329	1,119	1,329
Non-savings deposits	18,045	24,131	16,839	22,983
General governments	604	1,342	596	1,263
Other financial corporations	1,003	579	1,259	992
Non-financial corporations	6,670	8,932	6,210	8,432
Households	9,768	13,278	8,774	12,296
Term deposits	**24,618**	**23,366**	**23,757**	**22,300**
Deposits with agreed maturity	24,460	23,155	23,599	22,089
Savings deposits	*21,520*	*20,503*	*21,348*	*20,001*
Other financial corporations	1,032	1,548	1,494	1,657
Non-financial corporations	1,929	1,522	1,933	1,522
Households	18,559	17,433	17,921	16,822
Non-savings deposits	*2,940*	*2,652*	*2,251*	*2,088*
General governments	2,409	2,245	2,251	2,088
Other financial corporations	62	81	-	-
Non-financial corporations	465	322	-	-
Households	4	4	-	-
Deposits redeemable at notice	158	211	158	211
General governments	3	3	3	3
Other financial corporations	1	2	1	2
Non-financial corporations	105	144	105	144
Households	49	62	49	62
Repurchase agreements	**157**	**-**	**157**	**-**
General governments	-	-	-	-
Non-financial corporations	157	-	157	-
Deposits from customers	**44,374**	**49,197**	**42,307**	**46,983**
General governments	3,016	3,590	2,850	3,354
Other financial corporations	2,102	2,211	2,758	2,652
Non-financial corporations	9,757	11,290	8,836	10,468
Households	29,499	32,106	27,863	30,509
Other financial liabilities	**857**	**889**	**158**	**202**

Debt securities issued

	GROUP		BANK	
in HRK million	**2017**	**2018**	**2017**	**2018**
Debt securities issued	376	670	376	670
Bonds	376	670	376	670
Debt securities issued	**376**	**670**	**376**	**670**

33. Financial liabilities measured at amortised costs (continued)

On 31 December 2018, long-term funding amounted EUR 961 million which is EUR 64 million lower in comparison to 31 December 2017. Domestic funding amounted EUR 357 million, which includes EUR 267 million of funding from Croatian Bank for Reconstruction and Development (CBRD) and EUR 90 million of issued senior bond. Funding from the foreign banks amounted EUR 604 million and it includes EUR 269 million of intragroup funding, EUR 170 million of subordinated loans (Tier 2) and EUR 165 million of supranational funding.

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 is +1,9%.

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, when CET 1 and AT 1 capital are not sufficient to cover the losses. Where the level of capital is still insufficient after the write down of relevant capital instruments (CET1, AT1 and 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 2018 and 2017.

34. Provisions

	GROUP		BANK	
in HRK million	2017	2018	2017	2018
Long-term employee provisions	15	12	9	8
Pending legal issues	89	78	68	68
Provision for commitments and guarantees given	150	94	122	69
CLA for loan commitments and financial guarantees in Stage 1	x	46	x	37
CLA for loan commitments and financial guarantees in Stage 2	x	17	x	7
CLA for loan commitments and financial guarantees - Defaulted	x	31	x	25
Other provision	13	21	13	21
Provisions	**267**	**205**	**212**	**166**

In the ordinary course of business, the Group and the Bank are subject to legal actions and complaints. The Management believes that the ultimate liability will not exceed the amount of provisions recognised at reporting date.

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 2018						Dec 2018
Stage 1	56	48	(14)	(2)	(42)	-	46
Stage 2	16	-	(6)	12	(5)	-	17
Defaulted	20	-	(3)	13	1	-	31
Total	**92**	**48**	**(23)**	**23**	**(46)**	**-**	**94**

							BANK
in HRK million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 2018						Dec 2018
Stage 1	39	38	(9)	(1)	(30)	-	37
Stage 2	11	-	(6)	9	(7)	-	7
Defaulted	14	-	(3)	13	1	-	25
Total	**64**	**38**	**(18)**	**21**	**(36)**	**-**	**69**

b) Long-term employee provisions

			GROUP
in HRK million	Pensions	Jubilee payments	Total
Present value of long-term employee benefit obligations, 31 December 2016	**6**	**8**	**14**
Service cost	-	1	1
Interest cost	-	-	-
Payments	-	(1)	(1)
Actuarial gains/losses recognised in income	-	1	1
Present value of long-term employee benefit obligations, 31 December 2017	**6**	**9**	**15**
Service cost	1	1	2
Interest cost	-	-	-
Payments	-	(2)	(2)
Components recognised in other comprehensive income (Remeasurements)	(3)	-	(3)
Actuarial gains/(losses) arising from changes in financial assumptions	(3)	-	(3)
Present value of long-term employee benefit obligations, 31 December 2018	**4**	**8**	**12**

34. Provisions (continued)

			BANK
in HRK million	Pensions	Jubilee payments	Total
Present value of long-term employee benefit obligations, 31 December 2016	**3**	**6**	**9**
Service cost	-	1	1
Interest cost	-	-	-
Payments	-	(1)	(1)
Present value of long-term employee benefit obligations, 31 December 2017	**3**	**6**	**9**
Service cost	1	-	1
Interest cost	-	-	-
Payments	-	(1)	(1)
Components recognised in other comprehensive income (remeasurements)	(1)	-	(1)
Actuarial gains/(losses) arising from changes from experience assumptions	(1)	-	(1)
Present value of long-term employee benefit obligations, 31 December 2018	**3**	**5**	**8**

Actuarial assumptions

The actuarial calculation of pension obligations and jubilee provisions is based on the following assumptions:

in %	2017	2018
Interest rate	3.15	3.25
Expected increase in retirement benefits	6.02	7.10

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 2018.

in HRK million	Pensions	Jubilee payments	Total
Change in discount rate + 1.0 %	2	5	7
Change in discount rate - 1.0 %	3	6	9

34. Provisions (continued)

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
2019	-	1	1
2020	-	1	1
2021	-	-	-
2022	-	-	-
2023	-	1	1
2024 - 2028	-	1	1

Duration

The following table presents the weighted average duration of the defined-benefit obligations as of year-end 2018:

in years	Pensions	Jubilee payments	Total
Duration	15.70	10.88	13.29

c) Sundry provisions (other than long term employee provisions)

Sundry provisions 2018

						GROUP
in HRK million	2017	Allocations	Use	Releases	Exchange-rate	2018
Pending legal issues	89	19	(8)	(22)	-	78
Other provision	13	44	(30)	(6)	-	21
Total	**102**	**63**	**(38)**	**(28)**	**-**	**99**

						BANK
in HRK million	2017	Allocations	Use	Releases	Exchange-rate	2018
Pending legal issues	68	9	(3)	(6)	-	68
Other provision	13	44	(30)	(6)	-	21
Total	**81**	**53**	**(33)**	**(12)**	**-**	**89**

34. Provisions (continued)

Sundry provisions 2017

						GROUP
in HRK million	**2016**	**Allocations**	**Use**	**Releases**	**Exchange-rate**	**2017**
Provision for commitments and guarantees given	161	261	-	(272)	-	150
Pending legal issues	69	26	(1)	(5)	-	89
Other provision	16	-	(3)	-	-	13
Total	**246**	**287**	**(4)**	**(277)**	**-**	**252**

						BANK
in HRK million	**2016**	**Allocations**	**Use**	**Releases**	**Exchange-rate**	**2017**
Provision for commitments and guarantees given	129	247	-	(255)	1	122
Pending legal issues	62	11	(1)	(3)	(1)	68
Other provision	16	-	(3)	-	-	13
Total	**207**	**258**	**(4)**	**(258)**	**-**	**203**

35. Other liabilities

		GROUP		BANK
in HRK million	**2017**	**2018**	**2017**	**2018**
Prepayments received from debtors	163	185	156	162
Salaries and bonuses payable	167	180	135	146
Deferred income and accrued fee expenses	95	101	5	5
Payables to State Agency for deposit	21	21	18	18
Sundry liabilities	181	116	119	82
Other liabilities	**627**	**603**	**433**	**413**

36. Total equity

Share capital

As at 31 December 2018 and 2017 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 2018 the legal reserves of the Bank disclose non-distributable reserves of HRK 85 million, as at 31 December 2017 legal reserves amounted to HRK 85 million.
Share premium as at 31 December 2018 and 2017 amounted to HRK 1,802 million.

Dividends

The dividends for 2018 are subject to approval by shareholders at Annual General Assembly which has not been held as of the date when these consolidated financial statements were authorized for issue. The dividend declared by the Bank for the year 2017 was HRK 9.43 per share (total amount HRK 160 million).

37. Segment reporting

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

Retail segment

Comprises the business activities which are in the responsibility of account managers in the Retail network. Targeted customers are mainly privates, micros and free professionals. This business is mainly operated by the local banks in cooperation with their subsidiaries such as Leasing, Asset Management with the focus on simple products ranged from loans, investment products, current accounts, savings products, to credit cards and cross selling products such as leasing, insurance, 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 (SME) 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 (PS) consists of three sets of customers: public sector, public corporations and non-profit sector. In addition majority of municipalities are also segmented as Public Sector clients.

37. Segment reporting (continued)

Asset Liability Management (ALM) and Local Corporate Center (LCC)

Asset Liability Management (ALM) and Local Corporate Center (LCC) segment comprises on the one side the management of bank assets and liabilities in the light of uncertainty of cash flows, cost of funds and return on investments in order to determine the optimal trade-off between risk, return and liquidity. Furthermore it comprises funding transactions, hedging activities, investments into securities other than held for trading purpose, management of own issues and FX positions.

On the other side it also includes the residual local corporate center which comprises all non-core banking business activities such as non-profit servicing participations (e.g. IT, Procurement, Facility Management), intragroup eliminations within the respective partial group, dividends, refinancing costs of participations, all non-banking balance sheet positions (e.g. fixed assets, intangible assets) which cannot be allocated to other business segments as well as the profit and loss positions resulting from these balance sheet items. Apart from that the Corporate Center includes the reconciliations to the accounting result.
Also Local Corporate Center includes the result of Free Capital of Erste Group, which is defined as the difference of the total average IFRS capital and the average economical capital allocated to all operating segments.

Group Markets

Group Markets (GM) segment comprises trading and markets services as well as business with financial institutions.

Trading and Market services comprises all activities related to active risk taking and managing, additional to that the execution of trades against the market using the trading books of Erste Group for market making, short-term liquidity management and warehousing purposes.

Financial institutions (FI) are companies that provide financial services for their clients or members and act as professional and active participant on financial markets for the purpose of proprietary trading or on behalf of their clients (banks, central banks, development banks, investment banks, investment funds, brokerages, insurance companies, pension funds, credit unions, building societies, asset management companies, government debt agencies, sovereign wealth funds, exchanges).
Business connected with serving financial institutions as a client including custody, depository services, commercial business (loans, cash management, trade & export finance) and capital markets business falls under FI.

37. Segment reporting (continued)

	Retail		Corporates		Group Markets		ALM & LCC		GROUP	
in HRK million	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**
Net interest income	1,315	1,498	794	776	10	8	(47)	(209)	2,072	2,073
Net fee and commission income	450	473	246	250	40	26	(21)	(15)	715	734
Dividend income	-	-	-	-	-	-	1	1	1	1
Net trading and fair value result	79	92	44	61	62	57	15	11	198	221
Gains/losses from financial instruments at FVPL	-	-	-	-	-	-	-	4	-	4
Net result from equity method investments	10	10	-	-	-	-	-	1	10	11
Rental income from investment properties & other operating leases	36	41	110	76	-	-	1	-	147	117
General administrative expenses	(1,015)	(1,082)	(414)	(404)	(47)	(49)	(64)	(42)	(1,540)	(1,577)
Gains/losses from financial assets and liabilities not at FVPL, net	-	x	-	x	-	x	5	x	5	x
Other gains/losses from derecognition of financial instruments not at FVPL	x	-	x	-	x	-	x	28	x	28
Net impairment loss on financial assets	(32)	x	(787)	x	(1)	x	(46)	x	(866)	x
Impairment result from financial instruments	x	(27)	x	(230)	x	6	x	5	x	(246)
Other operating result	(7)	(19)	10	(14)	(2)	(2)	(103)	(46)	(102)	(81)
Levies on banking activities	-	-	-	-	-	-	-	-	-	-
Pre-tax result from continuing operations	**835**	**986**	**3**	**515**	**61**	**46**	**(260)**	**(262)**	**640**	**1,285**
Income tax	(147)	(171)	(1)	(92)	(11)	(8)	(24)	17	(183)	(254)
Post-tax result from continuing operations	689	815	2	423	51	38	(285)	(245)	457	1,031
Post-tax result from discontinued operations	-	-	-	-	-	-	-	-	-	-
Net result for the period	**689**	**815**	**2**	**423**	**51**	**38**	**(285)**	**(245)**	**457**	**1,031**
Net result attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	77	(23)	**77**	**(23)**
Net result attributable to owners of the parent	**688**	**815**	**2**	**423**	**51**	**38**	**(208)**	**(268)**	**534**	**1,008**
Operating income	1,889	2,113	1,194	1,163	112	91	(52)	(206)	3,143	3,161
Operating expenses	(1,015)	(1,082)	(414)	(404)	(47)	(49)	(64)	(42)	(1,540)	(1,577)
Operating result	**874**	**1,031**	**779**	**759**	**65**	**42**	**(116)**	**(248)**	**1,603**	**1,584**
Risk-weighted assets (credit risk, eop)	8,466	9,737	18,571	18,410	661	254	8,337	7,864	36,035	36,265
Average allocated capital	1,176	1,516	1,927	2,365	77	79	1,110	1,485	4,290	5,445
									-	-
Cost/income ratio	54%	51%	35%	35%	42%	54%	119%	20%	49%	50%
Return on allocated capital	58%	54%	-	18%	66%	48%	19%	18%	12%	19%
Total assets (eop)	20,856	22,779	24,094	25,799	1,797	1,442	19,177	19,671	65,924	69,691
Total liabilities excluding equity (eop)	31,244	34,571	11,357	13,245	1,874	951	13,244	11,863	57,719	60,630
Impairments	**(38)**	**(30)**	**(782)**	**(239)**	**(1)**	**7**	**(118)**	**(43)**	**(939)**	**(305)**
Net impairment loss on loans and receivables to credit institutions/customers	(32)	x	(782)	x	(1)	x	(46)	x	(861)	x
Net impairment loss on other financial assets	-	x	(5)	x	-	x	-	x	(5)	x
Net impairment loss on financial assets AC	x	(22)	x	(201)	x	7	x	4	x	(212)
Net impairment loss on financial assets FVOCI	x	-	x	-	x	-	x	(3)	x	(3)
Net impairment loss on finance lease receivables	x	-	x	3	x	-	x	-	x	3
Net impairment loss on commitments and guarantees given	(5)	(6)	11	(32)	-	-	3	4	9	(34)
Impairment of goodwill	-	-	-	-	-	-	(4)	(44)	(4)	(44)
Net impairment on other non-financial assets	(1)	(2)	(6)	(9)	-	-	(71)	(4)	(78)	(15)

37. Segment reporting (continued)

Measurement

The Profit and Loss Statement of the segment report 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 1.5% on 31 December 2018 (2017: 0.8%) and in the Bank 1.4% (2017: -1.1%).

38. Leases

a) Finance leases

Finance leases receivables are included under the Statement of Financial Position item Loans to and receivables from customers.
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	**2017**	**2018**
Outstanding minimum lease payments	1,916	2,263
Non-guaranteed residual values	-	-
Gross investment	**1,916**	**2,263**
Unrealised financial income	(142)	(157)
Net investment	**1,774**	**2,106**
Present value of non-guaranteed residual values	-	-
Present value of minimum lease payments	**1,774**	**2,106**

The maturity analysis of gross investment in leases and present values of minimum lease payments under non-cancellable leases is as follows (residual maturities):

	GROUP			
	Gross investment		Present value of non-guaranteed residual values	
in HRK million	**2017**	**2018**	**2017**	**2018**
< 1 year	693	831	628	761
1-5 years	1,192	1,379	1,115	1,293
> 5 years	31	53	31	52
Total	**1,916**	**2,263**	**1,774**	**2,106**

b) Operating leases

Under operating leases, the Group and the Bank has entered into commercial leases on premises, vehicles and equipment.

Operating leases from the view of the Group and the Bank as lessor:
Minimum lease payments from operating leases were as follows:

	GROUP		BANK	
in HRK million	**2017**	**2018**	**2017**	**2018**
< 1 year	113	89	9	9
1 -5 years	195	155	22	22
> 5 years	11	2	-	-
Total	**319**	**246**	**31**	**31**

Operating leases from the view of the Group and the Bank as lessee:
Minimum lease payments from operating leases were as follows:

	GROUP		BANK	
in HRK million	**2017**	**2018**	**2017**	**2018**
< 1 year	32	34	31	34
1-5 years	108	112	104	108
> 5 years	50	43	49	41
Total	**190**	**189**	**184**	**183**

Lease payments from operating leases recognised as expense in the period for the Group amounted to HRK 41 million (2017: HRK 41 million) and for the Bank HRK 39 million (2017: HRK 35 million).

39. 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.

As at 31 December 2018 and 31 December 2017, balances outstanding with related parties comprised:

ASSET						GROUP
	Loans and receivables	Derivatives	Other	Loans and receivables	Derivatives	Other
in HRK million			2017			2018
Entity with significant influence on the Group	-	-	1	-	-	1
Key management personnel	13	-	-	5	-	-
Parent company	1,413	41	330	1,442	11	151
Other EGB companies	5	-	15	3	-	29
Other	2	-	-	1	-	-
Associates	413	1	-	1	1	-
Total assets	**1,846**	**42**	**346**	**1,452**	**12**	**181**

LIABILITIES						GROUP
	Deposits	Derivatives	Other	Deposits	Derivatives	Other
in HRK million			2017			2018
Entity with significant influence on the Group	3,362	-	-	3,165	-	-
Key management personnel	23	-	3	19	-	-
Parent company	5,967	13	3	4,183	19	2
Other EGB companies	176	-	3	155	-	-
Other	18	-	-	41	-	-
Associates	117	2	-	22	2	-
Total liabilities	**9,663**	**15**	**9**	**7,585**	**21**	**2**

ASSET						BANK
	Loans and receivables	Derivatives	Other	Loans and receivables	Derivatives	Other
in HRK million			2017			2018
Entity with significant influence on the Group	-	-	-	-	-	1
Key management personnel	13	-	-	4	-	-
Parent company	1,412	41	257	1,359	11	132
Other EGB companies	3	-	3	3	-	3
Other	2	-	-	1	-	-
Subsidiaries	421	3	-	820	1	-
Associates	413	1	-	1	1	-
Total assets	**2,264**	**45**	**260**	**2,188**	**13**	**136**

LIABILITIES						BANK
	Deposits	Derivatives	Other	Deposits	Derivatives	Other
in HRK million			2017			2018
Entity with significant influence on the Group	1,509	-	-	1,107	-	-
Key management personnel	22	-	3	18	-	-
Parent company	3,236	13	3	2,452	19	2
Other EGB companies	116	-	3	150	-	-
Other	18	-	-	41	-	-
Subsidiaries	974	-	-	578	-	-
Associates	117	2	-	22	2	-
Total liabilities	**5,992**	**15**	**9**	**4,368**	**21**	**2**

39. Related-party transactions (continued)

Transactions with related parties comprised:

STATEMENT OF PROFIT OR LOSS		GROUP		BANK
in HRK million	**2017**	**2018**	**2017**	**2018**
Interest income	**34**	**34**	**42**	**42**
Entity with significant influence on the Group	3	-	3	-
Key management personnel	1	-	-	-
Parent company	30	34	30	33
Other EGB companies	-	-	-	-
Subsidiaries	-	-	9	9
Associates	-	-	-	-
Fee income	**35**	**35**	**89**	**98**
Parent company	8	4	7	3
Other EGB companies	25	28	25	28
Subsidiaries	-	-	55	64
Associates	2	3	2	3
Other operating income	**29**	**29**	**22**	**20**
Parent company	7	5	5	4
Subsidiaries	-	-	16	14
Other EGB companies	22	24	1	2
Associates	-	-	-	-
Total income	**98**	**98**	**153**	**160**

STATEMENT OF PROFIT OR LOSS		GROUP		BANK
in HRK million	**2017**	**2018**	**2017**	**2018**
Interest expense	**198**	**223**	**123**	**162**
Entity with significant influence on the Group	64	60	33	29
Key management personnel	1	-	1	-
Other EGB companies	2	1	-	-
Parent company	131	159	89	129
Subsidiaries	-	-	-	1
Associates	-	3	-	3
Fee expense	**34**	**33**	**41**	**40**
Parent company	7	4	7	4
Other EGB companies	26	29	20	22
Other	1	-	1	-
Subsidiaries	-	-	13	14
Other administrative expenses	**61**	**68**	**106**	**111**
Parent company	18	18	18	18
Other EGB companies	42	49	30	35
Key management personnel	1	1	1	1
Subsidiaries	-	-	57	57
Associates	-	-	-	-
Other operating expenses	**-**	**1**	**-**	**-**
Parent company	-	1	-	-
Total expenses	**293**	**325**	**270**	**313**

39. Related-party transactions (continued)

OFF BALANCE ITEMS	GROUP		BANK	
in HRK million	2017	2018	2017	2018
Guarantees issued	**116**	**30**	**34**	**29**
Parent company	32	29	32	29
Other EGB companies	84	1	-	-
Other	-	-	-	-
Subsidiaries	-	-	2	-
Undrawn credit and loan commitments	**3**	**1**	**68**	**205**
Key management personnel	1	-	1	-
Other EGB companies	2	1	-	-
Subsidiaries	-	-	67	205
Associates	-	-	-	-
Total commitments and contingent liabilities	**119**	**31**	**102**	**234**

As at 31 December 2018, the Group has had cash deposit as collateral within Amounts due to banks from the parent company in the amount of HRK 891 million (2017: HRK 1,048 million).

The remuneration of Management Board and key management were as follows:

	GROUP		BANK	
in HRK million	2017	2018	2017	2018
Wages and salaries	58	35	10	9
Bonuses	14	9	6	6
Total remuneration	**72**	**44**	**16**	**15**
Of which pension costs	4	4	1	1

40. Asset pledged as collateral

The following assets were pledged as security for liabilities:

Pledged assets	GROUP		BANK	
in HRK million	2017	2018	2017	2018
Loans to and receivables from customers	364	x	364	x
Financial assets at amortised cost	x	1,320	x	1,320
Financial assets - available for sale	763	x	514	x
Financial assets at FVOCI	x	323	x	-
Financial assets - at FVPL	x	-	x	-
Non-trading financial asset at FVPL	x	93	x	-
Financial assets - held to maturity	457	x	457	x
Total	**1,584**	**1,736**	**1,335**	**1,320**

The financial assets pledged as collateral consist of bonds, shares in investment funds, equity instruments and other interest-bearing securities.
Collaterals were pledged as a result of repo transactions.

The fair value of collateral received which may be repledged or resold even without the security provider's default was HRK 2,155 million (2017: HRK 2,077 million) for the Group and HRK 2,580 million for the Bank (2017: HRK 2,264 million).
In 2017 collateral with fair value of HRK 162 million was repledged for the Group and the Bank.

The Bank is obliged to return repledged collateral.

41. Transfers of financial assets – repurchase transactions and securities lending

in HRK million	2017 Carrying amount of transferred assets	2017 Carrying amount of associated liabilities	2018 Carrying amount of transferred assets	2018 Carrying amount of associated liabilities
				GROUP
Repurchase agreements				
Financial assets at AC	x	x	-	-
Non-trading financial assets at FVPL	x	x	93	-
Financial assets - available for sale	250	34	x	x
Financial assets at FVOCI	x	x	323	-
Financial assets - held to maturity	-	-	x	x
Total - repurchase agreements	**250**	**34**	**416**	**-**

The transferred financial instruments consist of bonds and shares in investment funds.

The total amount of HRK 416 million (2017: HRK 250 million) for the Group and nil in 2018 and 2017 for the Bank 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 34 million in 2017 and nil in 2018 for the Group and nil in 2017 and 2018 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.

in HRK million	2017 Fair value of transferred assets	2017 Fair value of associated liabilities	2017 Net position	2018 Fair value of transferred assets	2018 Fair value of associated liabilities	2018 Net position
						GROUP
Financial assets at AC	x	x	x	-	-	-
Non-trading financial assets at FVPL	x	x	x	93	-	93
Financial assets - available for sale	250	34	216	x	x	x
Financial assets at FVOCI	x	x	x	323	-	323
Financial assets - held to maturity	-	-	-	x	x	x
Total	**250**	**34**	**216**	**416**	**-**	**416**

42. Offsetting

Financial assets subject to offsetting and potential offsetting agreements in 2018

							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	33	-	33	(16)	-	-	17
Reverse repurchase agreements	1,979	-	1,979	-	-	(1,979)	-
Total	**2,012**	**-**	**2,012**	**(16)**	**-**	**(1,979)**	**17**

Financial liabilities subject to offsetting and potential offsetting agreements in 2018

							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	27	-	27	(16)	(4)	-	7
Repurchase agreements	-	-	-	-	-	-	-
Total	**27**	**-**	**27**	**(16)**	**(4)**	**-**	**7**

Financial assets subject to offsetting and potential offsetting agreements in 2018

							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	34	-	34	(16)	-	-	18
Reverse repurchase agreements	2,367	-	2,367	-	-	(2,367)	-
Total	**2,401**	**-**	**2,401**	**(16)**	**-**	**(2,367)**	**18**

Financial liabilities subject to offsetting and potential offsetting agreements in 2018

							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	27	-	27	(16)	(4)	-	7
Repurchase agreements	-	-	-	-	-	-	-
Total	**27**	**-**	**27**	**(16)**	**(4)**	**-**	**7**

42. Offsetting (continued)

Financial assets subject to offsetting and potential offsetting agreements in 2017

							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	52	-	52	(3)	-	-	49
Reverse repurchase agreements	1,909	-	1,909	-	-	(1,909)	-
Total	**1,961**	**-**	**1,961**	**(3)**	**-**	**(1,909)**	**49**

Financial liabilities subject to offsetting and potential offsetting agreements in 2017

							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	52	-	52	(3)	-	-	49
Repurchase agreements	191	-	191	-	-	(191)	-
Total	**243**	**-**	**243**	**(3)**	**-**	**(191)**	**49**

Financial assets subject to offsetting and potential offsetting agreements in 2017

							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	55	-	55	(3)	-	-	52
Reverse repurchase agreements	2,076	-	2,076	-	-	(2,076)	-
Total	**2,131**	**-**	**2,131**	**(3)**	**-**	**(2,076)**	**52**

Financial liabilities subject to offsetting and potential offsetting agreements in 2017

							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	52	-	52	(3)	-	-	49
Repurchase agreements	157	-	157	-	-	(157)	-
Total	**209**	**-**	**209**	**(3)**	**-**	**(157)**	**49**

42. 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.

43. Risk management

43.1) 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.

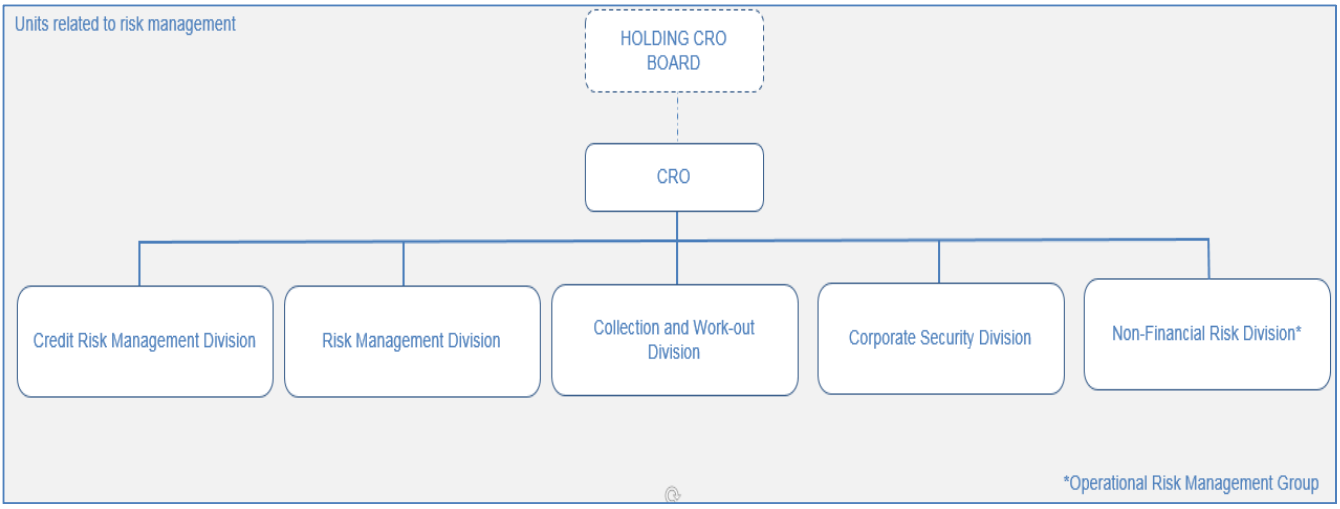
The Group uses a risk management and control system that is proactive and tailored to its business and risk profile. It is based on a clear risk strategy that is consistent with the Group's business strategy and focused on early identification and management of risks and trends. In addition to meeting 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.

43.2) 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.



43.2) 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
- Collection and Work-out Division
- Non-Financial Risk Division
- Corporate Security Division

Further breakdown to departments/units is set within mentioned organizational units with clearly defined responsibilities:

Corporate Risk Management Department

The Corporate Risk Management Department within the Credit Risk Management Division manages credit risk and monitors the balance of credit portfolios of clients that are belonging to the Corporate Division and the Financial Markets Division, and according to the responsibilities sets out in the relevant acts.

The Department analyses credit applications and issues credit risk assessments. It analyses the projects and evaluates its eligibility for financing from the risk perspective, analyses customer financial statements and confirms internal ratings, administrate and monitor client/group exposure limits in the Group and the Bank of connected customers, does portfolio analysis, monitors early warning signals and controls early collection.

The Department follows Group's standards within its scope, initiates, coordinates and creates local policies and procedures and monitors their fulfilment.

Retail Risk Management Department

Retail Risk Management Department within the Credit Risk Management Division manages credit risk and monitors the credit portfolio of clients from the Retail Sector. The Department analyses requests for loans, and issues an opinion on them. 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, confirms internal ratings, establishes and monitors exposure limits for client/group of connected customers in the Group and the Bank, portfolio reporting and monitors early warning signals.

The Department follows group standards within its scope, coordinates and creates local policies and procedures and monitors their fulfilment. The Department is responsible, through Credit Risk Monitoring and Collection Group, for carrying out the activities of early collection of clients in its jurisdiction, and in accordance with relevant acts.

43.2) Risk management organisation (continued)

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. The Department 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 groups, but is also involved in collateral management.
The Department also executes and drafts reports related to credit risk with the prescribed dynamics, in compliance with the legal regulations and the 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.

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, performs back-testing of provisions 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, collection improvement, and development of early warning signal systems, customer relationship management and risk cost planning.

Enterprise-wide risk management is also responsible for the creation of the Recovery Plan of EBC Group and participates in capital management within its field of responsibility.

43.2) Risk management organisation (continued)

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 operational, 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.

Collection and Work-out Division

The Collection and Workout Division is in charge of managing collection and bad placements by means of a continuous and systematic development of solutions to eliminate and reduce risks in dealing with work-out clients. In the Collection and Work-out Division three Department have been established, Corporate Workout Department, Retail Work-out Department, which follows the business lines in the sales sectors and Repossessed assets and Collateral management Department.

Corporate and Retail Departments uses all the necessary measures to ensure payment of outstanding debts, voluntary or should there be a lack of voluntary settlement of debts, enforcement. Corporate Department conducts collection of payments through restructuring of the client’s liabilities (early collection) and proposes operative restructuring, with the purpose of decrease of taken risks.

Collateral Management Department is in charge for control, update and maintaining 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. Repossessed Assets Department is in charge of the assets taken over by the Bank (repossessed assets).

Corporate Security Division

Corporate Security Division is in charge for conducting of tasks related to the security, adequate managing of informational system and risk of informational 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. Divison is also in charge for reports on state of Bank security which are sent to Management Board and the Supervisory Board.

43.2) 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.

43.3) Group-wide risk and capital 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's and EBC 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 plan.

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.

43.3) Group-wide risk and capital 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) & 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 **risk concentrations**. 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 risk concentration analysis covers credit risk, market risk, operational risk and liquidity risk.

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 enriche 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 P&L and capital adequacy, internally developed model is used to translate macroeconomic variables into risk parameters.

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.

43.3) Group-wide risk and capital 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 succesfuly completed the development of the new PD methodology during 2018 and begun the development phase of the new LGD/CCF methodology whose finalization and application to the regulator is expected until end 2019. Also, during 2018 the Bank has started the development of the new rating model for private individuals.

Risk-weighted asset management

As risk weighted assets determine the actual regulatory capital requirement of the Bank/EBC Group and influence the capital ratio as a key performance indicator, particular emphasis is devoted to meeting targeted levels of RWA. Insights from monthly RWA analyses are used to improve the calculation infrastructure, the quality of input parameters and data, as well as the most efficient application of the Basel framework. The Bank has established a process of tracking, planning and defining target levels of RWA. The Bank's Management Board is regularly informed on the levels of RWA and adherence to the limits set within the Risk Appetite Statement (RAS).

Capital allocation

An important task integral to the risk planning process is the allocation of capital to EBC entities, business lines and segments. This is done via close cooperation between local Enterprise-wide Risk Management, Group Risk Management and Controlling. All insight from the ICAAP and controlling processes is used to allocate capital with a view to risk-return considerations.

Leverage ratio

The leverage ratio represents the relationship between core capital (Tier 1) and leverage exposure according to Article 429 CRR. Essentially, the leverage exposure represents the sum of unweighted on and off balance sheet positions considering valuation and risk adjustments as defined within the CRR. Management Board is informed on the level of leverage ratio for the Bank and EBC Group and on the adherence to defined limits and targets within the Risk Appetite Statement on a quarterly basis.

Recovery plan

In compliance with the regulations issued by the Croatian National Bank (Decision on Recovery Plans of Credit Institutions), the Bank was required to draw up the Recovery Plan of EBC Group. The Recovery plan tests the resilience of the EBC Group under severe, stressed idiosyncratic and macroeconomic scenarios and defines options for the recovery of EBC Group under such conditions. In 2018, the Croatian National Bank was provided with an updated version of the Recovery plan.

43.4) 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 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.
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 AG 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 Management Board.

43.4) Credit risk (continued)

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: clients 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: The borrower is vulnerable to negative financial and economic developments.

Non-performing: clients 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 Group's and 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 including Retail clients; if a customer default on one product then the entire customer's performing products are classified as non-performing. Definition of non-performing exposure included non-performing forbearance into non-performing exposure even when a client does not meet criteria for default.

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

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.

43.4) Credit risk (continued)

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.

Following market conditions imply following of all macroeconomic variables, as well as their evaluation for future period.

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 2018 and 31 December 2017.

43.4) Credit risk (continued)

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

	GROUP				BANK			
in HRK million	Credit risk exposure	Credit loss allowances	FV adjustments	Net carrying amount	Credit risk exposure	Credit loss allowances	FV adjustments	Net carrying amount
2018								
Other demand deposits to credit institutions	243	-	-	243	175	-	-	175
Debt instruments held for trading	278	-	-	278	279	-	-	279
Non-trading debt instruments at FVPL	154	-	-	154	14	-	-	14
Debt securities	154	-	-	154	14	-	-	14
Debt instruments at FVOCI	8,333	(34)	158	8,491	7,739	(32)	136	7,875
Debt securities	8,333	(34)	158	8,491	7,739	(32)	136	7,875
Debt instruments at AC	52,675	(2,997)	-	49,678	48,884	(2,769)	-	46,115
Debt securities	1,275	(2)	-	1,273	1,021	(1)	-	1,020
Loans and advances to banks	5,234	(6)	-	5,228	5,314	(5)	-	5,309
Loans and advances to customers	46,166	(2,989)	-	43,177	42,549	(2,763)	-	39,786
Trade and other receivables	1,889	(464)	-	1,425	357	(48)	-	309
Finance lease receivables	2,106	(26)	-	2,080	-	-	-	-
Off balance-sheet exposures	9,024	(94)	-	9,024	6,105	(69)	-	6,105
Total	**74,702**	**(3,615)**	**158**	**71,373**	**63,553**	**(2,918)**	**136**	**60,872**

	GROUP		BANK	
in HRK million	Gross carrying amount	Carrying amount	Gross carrying amount	Carrying amount
2017				
Other demand deposits	413	413	283	283
Loans and advances to credit institutions	5,235	5,233	5,134	5,132
Loans and advances to customers	47,432	43,297	39,626	36,512
Held to maturity	1,886	1,878	1,396	1,391
Trading assets	195	195	195	195
Available for sale	7,756	7,756	7,352	7,352
Positive fair value of derivative financial instruments	52	52	55	55
Contingent credit liabilities	8,450	8,450	6,048	6,048
Total	**71,419**	**67,274**	**60,089**	**56,968**

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 financial instrument;
- industry and IFRS 9 treatment;
- risk category;
- industry and risk category;
- region and risk category;
- region and IFRS 9 treatment;
- business segment and risk category;
- business segment and IFRS 9 treatment.

43.4) 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
					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	Finance lease receivables	Off balance-sheet exposures	Total
2018											
Central banks	-	-	-	-	-	3,635	-	-	-	-	3,635
General governments	-	245	-	7,473	1,275	-	8,103	68	20	301	17,485
Credit institutions	243	11	-	550	-	1,599	-	205	2	213	2,823
Other financial corporations	-	8	154	-	-	-	492	10	13	23	700
Non-financial corporations	-	14	-	310	-	-	16,690	956	1,692	5,456	25,118
Households	-	-	-	-	-	-	20,881	650	379	3,031	24,941
Total	**243**	**278**	**154**	**8,333**	**1,275**	**5,234**	**46,166**	**1,889**	**2,106**	**9,024**	**74,702**

43.4) 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
Dec 18										
Central banks	-	-	-	-	-	3,542	-	-	-	3,542
General governments	-	245	-	6,879	1,021	-	7,934	6	253	16,338
Credit institutions	175	11	-	550	-	1,772	-	204	189	2,901
Other financial corporations	-	9	14	-	-	-	1,002	14	95	1,134
Non-financial corporations	-	14	-	310	-	-	15,851	106	4,394	20,675
Households	-	-	-	-	-	-	17,762	27	1,174	18,963
Total	**175**	**279**	**14**	**7,739**	**1,021**	**5,314**	**42,549**	**357**	**6,105**	**63,553**

Contingent liabilities / Off balance-sheet exposures by product

	GROUP		BANK	
	2017	2018	2017	2018
Financial guarantees	3,012	3,150	2,608	2,749
Irrevocable loan commitments	5,438	5,874	3,440	3,356
Revocable loan commitments	3,204	3,119	3,400	3,245
Total	**11,654**	**12,143**	**9,448**	**9,350**

43.4) Credit risk (continued)

Credit risk exposure by industry and financial instrument

The following table includes the Group's (Bank's) credit risk exposure broken down by industry and financial instruments for reporting dates.

											GROUP
					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	Finance lease receivables	Off balance-sheet exposures	Total
2018											
Agriculture and forestry	-	-	-	-	-	-	1,356	117	99	113	1,685
Mining	-	-	-	-	-	-	90	3	6	96	195
Manufacturing	-	-	-	14	-	-	3,000	228	184	1,137	4,563
Energy	-	7	-	-	-	-	729	14	17	112	879
Water supply	-	-	-	-	-	-	194	2	57	199	452
Construction	-	1	-	11	-	-	3,279	59	119	1,057	4,526
Trade	-	-	137	45	-	-	3,464	350	303	1,809	6,108
Transport	-	-	-	61	-	-	1,014	43	399	180	1,697
Hotels and restaurants	-	2	-	-	-	-	3,072	19	128	177	3,398
Communication	-	-	-	-	-	-	250	15	61	85	411
Financial and insurance services	243	20	17	758	-	5,234	485	264	15	231	7,267
Real estate	-	1	-	179	-	-	1,655	5	32	63	1,935
Professional activities	-	1	-	-	-	-	1,025	72	89	295	1,482
Administrative and support service activities	-	-	-	-	-	-	283	7	339	109	738
Public administration	-	246	-	7,265	1,275	-	5,416	22	12	265	14,501
Education	-	-	-	-	-	-	20	-	6	12	38
Health services	-	-	-	-	-	-	477	1	32	11	521
Art	-	-	-	-	-	-	340	1	24	210	575
Private households	-	-	-	-	-	-	19,900	638	168	2,833	23,539
Other	-	-	-	-	-	-	117	29	16	30	192
Total	**243**	**278**	**154**	**8,333**	**1,275**	**5,234**	**46,166**	**1,889**	**2,106**	**9,024**	**74,702**

43.4) Credit risk (continued)

Credit risk exposure by industry and financial instrument (continued)

										GROUP
				Debt instruments						
in HRK million	Other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure (gross)
		At amortised cost			Fair Value					
2017										
Agriculture, forestry	-	-	1,598	-	-	-	-	-	146	1,744
Mining	-	-	99	-	-	-	-	-	107	206
Manufacturing	-	-	3,411	-	-	-	14	-	1,287	4,712
Energy	-	-	553	-	-	-	-	5	349	907
Water supply	-	-	320	-	-	-	-	-	61	381
Construction	-	-	3,719	-	-	-	11	-	926	4,656
Trade	-	-	4,477	-	-	-	46	-	1,550	6,073
Transport	-	-	1,406	-	-	-	66	-	239	1,711
Hotels and restaurants	-	-	2,488	-	-	-	-	-	234	2,722
Communication	-	-	212	-	-	-	-	-	105	317
Financial and insurance services	413	5,235	1,124	-	-	-	769	45	308	7,894
Real estate	-	-	1,313	160	-	-	20	1	53	1,547
Professional activities	-	-	1,311	-	-	-	-	1	287	1,599
Administrative and support service activities	-	-	493	-	-	-	-	-	84	577
Public administration	-	-	4,835	1,726	195	-	6,830	-	46	13,632
Education	-	-	37	-	-	-	-	-	13	50
Health services	-	-	410	-	-	-	-	-	130	540
Art	-	-	296	-	-	-	-	-	118	414
Private households	-	-	19,242	-	-	-	-	-	2,375	21,617
Others	-	-	88	-	-	-	-	-	32	120
Total	**413**	**5,235**	**47,432**	**1,886**	**195**	**-**	**7,756**	**52**	**8,450**	**71,419**

43.4) Credit risk (continued)

Credit risk exposure by industry and financial instrument (continued)

					At amortised cost					BANK
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
2018										
Agriculture and forestry	-	-	-	-	-	-	1,347	1	113	1,461
Mining	-	-	-	-	-	-	69	-	72	141
Manufacturing	-	-	-	14	-	-	2,954	8	1,085	4,061
Energy	-	7	-	-	-	-	662	-	110	779
Water supply	-	-	-	-	-	-	170	-	199	369
Construction	-	1	-	11	-	-	3,219	10	940	4,181
Trade	-	-	-	45	-	-	3,094	14	1,008	4,161
Transport	-	-	-	61	-	-	971	1	159	1,192
Hotels and restaurants	-	2	-	-	-	-	2,987	3	171	3,163
Communication	-	-	-	-	-	-	272	9	86	367
Financial and insurance services	175	21	14	550	-	5,314	1,005	250	281	7,610
Real estate	-	1	-	179	-	-	1,652	1	63	1,896
Professional activities	-	1	-	-	-	-	997	3	280	1,281
Administrative and support service activities	-	-	-	-	-	-	253	1	86	340
Public administration	-	246	-	6,879	1,021	-	5,247	6	216	13,615
Education	-	-	-	-	-	-	17	-	12	29
Health services	-	-	-	-	-	-	392	-	11	403
Art	-	-	-	-	-	-	338	1	208	547
Private households	-	-	-	-	-	-	16,790	21	976	17,787
Other	-	-	-	-	-	-	113	28	29	170
Total	**175**	**279**	**14**	**7,739**	**1,021**	**5,314**	**42,549**	**357**	**6,105**	**63,553**

43.4) Credit risk (continued)

Credit risk exposure by industry and financial instrument (continued)

										BANK
				Debt instruments						
in HRK million	Other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Held to maturi ty	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure (gross)
		At amortised cost			Fair Value					
2017										
Agriculture, forestry	-	-	1,172	-	-	-	-	-	143	1,315
Mining	-	-	89	-	-	-	-	-	69	158
Manufacturing	-	-	2,898	-	-	-	14	-	1,252	4,164
Energy	-	-	479	-	-	-	-	5	346	830
Water supply	-	-	206	-	-	-	-	-	61	267
Construction	-	-	3,400	-	-	-	11	-	834	4,245
Trade	-	-	2,905	-	-	-	46	-	951	3,902
Transport	-	-	917	-	-	-	66	-	224	1,207
Hotels and restaurants	-	-	2,398	-	-	-	-	-	231	2,629
Communication	-	-	198	-	-	-	-	-	112	310
Financial and insurance services	283	5,134	1,470	-	-	-	529	48	198	7,662
Real estate	-	-	1,278	160	-	-	20	1	53	1,512
Professional activities	-	-	1,180	-	-	-	-	1	276	1,457
Administrative and support service activities	-	-	271	-	-	-	-	-	63	334
Public administration	-	-	4,598	1,236	195	-	6,666	-	46	12,741
Education	-	-	31	-	-	-	-	-	13	44
Health services	-	-	288	-	-	-	-	-	130	418
Art	-	-	257	-	-	-	-	-	118	375
Private households	-	-	15,515	-	-	-	-	-	896	16,411
Others	-	-	76	-	-	-	-	-	32	108
Total	**283**	**5,134**	**39,626**	**1,396**	**195**	**-**	**7,352**	**55**	**6,048**	**60,089**

43.4) 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
2018							
Agriculture and forestry	1,228	17	151	289	1,685	-	1,685
Mining	146	30	19	-	195	-	195
Manufacturing	3,716	316	505	26	4,563	-	4,563
Energy	779	27	66	-	872	7	879
Water supply	410	25	17	-	452	-	452
Construction	3,940	176	399	10	4,525	1	4,526
Trade	5,212	299	557	40	6,108	-	6,108
Transport	1,559	77	60	1	1,697	-	1,697
Hotels and restaurants	2,980	93	284	40	3,397	1	3,398
Communication	346	11	11	43	411	-	411
Financial and insurance services	6,813	278	2	-	7,093	174	7,267
Real estate	1,628	97	209	-	1,934	1	1,935
Professional activities	1,093	23	358	7	1,481	1	1,482
Administrative and support service activities	632	31	75	-	738	-	738
Public administration	14,240	14	-	-	14,254	247	14,501
Education	37	1	-	-	38	-	38
Health services	512	7	2	-	521	-	521
Art	554	14	7	-	575	-	575
Private households	19,023	2,879	1,633	4	23,539	-	23,539
Other	173	6	13	-	192	-	192
Total	**65,021**	**4,421**	**4,368**	**460**	**74,270**	**432**	**74,702**

43.4) 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
2018							
Agriculture and forestry	1,091	13	68	289	1,461	-	1,461
Mining	92	30	19	-	141	-	141
Manufacturing	3,315	309	412	25	4,061	-	4,061
Energy	687	19	66	-	772	7	779
Water supply	345	24	-	-	369	-	369
Construction	3,694	95	381	10	4,180	1	4,181
Trade	3,709	91	328	33	4,161	-	4,161
Transport	1,111	26	54	1	1,192	-	1,192
Hotels and restaurants	2,770	82	270	40	3,162	1	3,163
Communication	302	11	11	43	367	-	367
Financial and insurance services	7,106	468	1	-	7,575	35	7,610
Real estate	1,591	96	208	-	1,895	1	1,896
Professional activities	974	8	291	7	1,280	1	1,281
Administrative and support service activities	278	2	60	-	340	-	340
Public administration	13,355	13	-	-	13,368	247	13,615
Education	29	-	-	-	29	-	29
Health services	398	4	1	-	403	-	403
Art	529	12	6	-	547	-	547
Private households	14,690	1,727	1,366	4	17,787	-	17,787
Other	153	5	12	-	170	-	170
Total	**56,219**	**3,035**	**3,554**	**452**	**63,260**	**293**	**63,553**

Credit risk exposure by risk category

The following table presents the credit risk exposure of the Group and the Bank divided by risk category as at 31 December 2018, compared with the credit risk exposure as at 31 December 2017

Credit risk exposure by risk category

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Credit risk exposure 2018	61,371	7,335	1,103	4,893	74,702
Share of credit risk exposure	82%	10%	1%	7%	100%
Credit risk exposure 2017	57,205	7,166	1,147	5,901	71,419
Share of credit risk exposure	80%	10%	2%	8%	100%

					BANK
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Credit risk exposure 2018	53,584	5,231	670	4,068	63,553
Share of credit risk exposure	84%	8%	1%	7%	100%
Credit risk exposure 2017	49,571	5,456	779	4,283	60,089
Share of credit risk exposure	83%	9%	1%	7%	100%

43.4) Credit risk (continued)

Credit risk exposure by industry and risk category
The following table presents the credit risk exposure of the Group and the Bank broken down by industry and risk category as at 31 December 2018 and 31 December 2017, respectively.

Credit risk exposure by industry and risk category

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2018					
Agriculture, forestry	1,149	93	3	440	1,685
Mining	165	11	-	19	195
Manufacturing	3,447	549	35	532	4,563
Energy	808	3	2	66	879
Water supply	374	61	-	17	452
Construction	3,681	293	139	413	4,526
Trade	5,078	376	55	599	6,108
Transport	1,491	138	8	60	1,697
Hotels and restaurants	2,840	190	26	342	3,398
Communication	329	17	4	61	411
Financial and insurance services	6,625	640	-	2	7,267
Real estate	1,669	43	1	222	1,935
Professional activities	957	155	4	366	1,482
Administrative and support service activities	549	112	2	75	738
Public administration	14,349	151	1	-	14,501
Education	36	2	-	-	38
Health services	457	62	1	1	521
Art	545	22	1	7	575
Private households	16,660	4,401	820	1,658	23,539
Others	162	16	1	13	192
Total	**61,371**	**7,335**	**1,103**	**4,893**	**74,702**
2017					
Agriculture, forestry	1,168	78	4	494	1,744
Mining	159	8	-	39	206
Manufacturing	3,676	501	64	471	4,712
Energy	872	-	3	32	907
Water supply	310	12	42	17	381
Construction	3,503	407	119	627	4,656
Trade	4,457	318	53	1,245	6,073
Transport	1,516	127	4	64	1,711
Hotels and restaurants	1,947	182	40	553	2,722
Communication	263	29	9	16	317
Financial and insurance services	7,584	301	2	7	7,894
Real estate	1,078	209	16	244	1,547
Professional activities	616	703	69	211	1,599
Administrative and support service activities	373	107	3	94	577
Public administration	13,513	119	-	-	13,632
Education	45	3	2	-	50
Health services	472	63	-	5	540
Art	379	16	12	7	414
Private households	15,191	3,965	701	1,760	21,617
Others	83	18	4	15	120
Total	**57,205**	**7,166**	**1,147**	**5,901**	**71,419**

43.4) 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**
2018					
Agriculture, forestry	1,017	83	3	358	1,461
Mining	111	11	-	19	141
Manufacturing	3,081	510	33	437	4,061
Energy	711	2	-	66	779
Water supply	328	41	-	-	369
Construction	3,497	160	129	395	4,181
Trade	3,657	120	22	362	4,161
Transport	1,050	81	7	54	1,192
Hotels and restaurants	2,647	165	24	327	3,163
Communication	297	5	4	61	367
Financial and insurance services	6,774	835	-	1	7,610
Real estate	1,633	41	-	222	1,896
Professional activities	875	108	1	297	1,281
Administrative and support service activities	258	20	2	60	340
Public administration	13,614	1	-	-	13,615
Education	28	1	-	-	29
Health services	392	10	-	1	403
Art	521	19	1	6	547
Private households	12,949	3,005	443	1,390	17,787
Others	144	13	1	12	170
Total	**53,584**	**5,231**	**670**	**4,068**	**63,553**
2017					
Agriculture, forestry	1,028	75	4	208	1,315
Mining	112	8	-	38	158
Manufacturing	3,222	466	50	426	4,164
Energy	798	-	-	32	830
Water supply	217	5	28	17	267
Construction	3,318	261	101	565	4,245
Trade	3,264	146	40	452	3,902
Transport	1,079	67	2	59	1,207
Hotels and restaurants	1,884	163	32	550	2,629
Communication	286	5	8	11	310
Financial and insurance services	7,368	291	2	1	7,662
Real estate	1,052	200	16	244	1,512
Professional activities	550	648	68	191	1,457
Administrative and support service activities	201	43	2	88	334
Public administration	12,736	5	-	-	12,741
Education	39	3	2	-	44
Health services	407	7	-	4	418
Art	343	12	12	8	375
Private households	11,591	3,037	408	1,375	16,411
Others	76	14	4	14	108
Total	**49,571**	**5,456**	**779**	**4,283**	**60,089**

43.4) 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 2018 and 31 December 2017.

Credit risk exposure by region and risk category

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2018					
Erste Group markets	**55,212**	**6,286**	**983**	**4,714**	**67,195**
Austria	1,636	4	-	-	1,640
Croatia	53,127	6,278	983	4,713	65,101
Serbia	6	4	-	1	11
Slovakia	439	-	-	-	439
Czech Republic	3	-	-	-	3
Hungary	1	-	-	-	1
Other EU countries	**2,439**	**109**	**35**	**22**	**2,605**
Other industrialised countries	**190**	**10**	**-**	**15**	**215**
Emerging markets	**3,530**	**930**	**85**	**142**	**4,687**
Southeastern Europe/CIS	3,523	930	85	142	4,680
Asia	5	-	-	-	5
Latin Amerika	1	-	-	-	1
Middle East/Africa	1	-	-	-	1
Total	**61,371**	**7,335**	**1,103**	**4,893**	**74,702**
2017					
Erste Group markets	**51,470**	**6,142**	**1,014**	**5,707**	**64,333**
Austria	1,904	1	-	-	1,905
Croatia	48,986	6,135	1,014	5,706	61,840
Serbia	6	5	-	1	12
Slovakia	574	-	-	-	574
Czech Republic	-	1	-	-	1
Other EU countries	**1,944**	**39**	**23**	**48**	**2,054**
Other industrialised countries	**430**	**7**	**1**	**15**	**453**
Emerging markets	**3,361**	**978**	**109**	**131**	**4,579**
South Eastern Europe/CIS	3,343	976	109	131	4,559
Asia	18	2	-	-	20
Latin Amerika	-	-	-	-	-
Middle East/Africa	-	-	-	-	-
Total	**57,205**	**7,166**	**1,147**	**5,901**	**71,419**

43.4) 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
2018					
Erste Group markets	**51,111**	**5,200**	**668**	**4,050**	**61,029**
Austria	1,509	4	-	-	1,513
Croatia	49,154	5,195	668	4,049	59,066
Serbia	5	1	-	1	7
Slovakia	439	-	-	-	439
Czech Republic	3	-	-	-	3
Hungary	1	-	-	-	1
Other EU countries	**1,196**	**9**	**2**	**2**	**1,209**
Other industrialised countries	**188**	**4**	**-**	**15**	**207**
Emerging markets	**1,089**	**18**	**-**	**1**	**1,108**
South Eastern Europe/CIS	1,082	18	-	1	1,101
Asia	5	-	-	-	5
Latin America	1	-	-	-	1
Middle East/Africa	1	-	-	-	1
Total	**53,584**	**5,231**	**670**	**4,068**	**63,553**
2017					
Erste Group markets	**47,127**	**5,439**	**777**	**4,239**	**57,582**
Austria	1,803	1	-	-	1,804
Croatia	44,745	5,436	777	4,238	55,196
Serbia	6	1	-	1	8
Slovakia	573	-	-	-	573
Czech Republic	-	1	-	-	1
Other EU countries	**1,032**	**11**	**2**	**27**	**1,072**
Other industrialised countries	**430**	**1**	**-**	**15**	**446**
Emerging markets	**982**	**5**	**-**	**2**	**989**
Southeastern Europe/CIS	963	3	-	2	968
Asia	19	2	-	-	21
Total	**49,571**	**5,456**	**779**	**4,283**	**60,089**

43.4) 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
2018							
Core markets	**58,119**	**3,993**	**4,191**	**460**	**66,763**	**432**	**67,195**
Austria	1,627	2	-	-	1,629	11	1,640
Croatia	56,039	3,991	4,190	460	64,680	421	65,101
Serbia	10	-	1	-	11	-	11
Slovakia	439	-	-	-	439	-	439
Czech Republic	3	-	-	-	3	-	3
Hungary	1	-	-	-	1	-	1
Other EU	**2,374**	**208**	**23**	**-**	**2,605**	**-**	**2,605**
Other industrialised countries	**198**	**2**	**15**	**-**	**215**	**-**	**215**
Emerging markets	**4,330**	**218**	**139**	**-**	**4,687**	**-**	**4,687**
Southeastern Europe/CIS	4,323	218	139	-	4,680	-	4,680
Asia	5	-	-	-	5	-	5
Latin America	1	-	-	-	1	-	1
Middle East/Africa	1	-	-	-	1	-	1
Total	**65,021**	**4,421**	**4,368**	**460**	**74,270**	**432**	**74,702**

							BANK
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
2018							
Core markets	**53,904**	**2,845**	**3,535**	**452**	**60,736**	**293**	**61,029**
Austria	1,499	3	-	-	1,502	11	1,513
Croatia	51,956	2,842	3,534	452	58,784	282	59,066
Serbia	6	-	1	-	7	-	7
Slovakia	439	-	-	-	439	-	439
Czech Republic	3	-	-	-	3	-	3
Hungary	1	-	-	-	1	-	1
Other EU	**1,067**	**140**	**2**	**-**	**1,209**	**-**	**1,209**
Other industrialised countries	**191**	**1**	**15**	**-**	**207**	**-**	**207**
Emerging markets	**1,057**	**49**	**2**	**-**	**1,108**	**-**	**1,108**
Southeastern Europe/CIS	1,050	49	2	-	1,101	-	1,101
Asia	5	-	-	-	5	-	5
Latin America	1	-	-	-	1	-	1
Middle East/Africa	1	-	-	-	1	-	1
Total	**56,219**	**3,035**	**3,554**	**452**	**63,260**	**293**	**63,553**

43.4) 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 2018 and 31 December 2017.

Credit risk exposure by business segment and risk category

					GROUP
in HRK million	**Low risk**	**Management attention**	**Substandard**	**Non-performing**	**Credit risk exposure**
2018					
Retail	17,887	4,871	859	1,817	25,434
Small and Medium Enterprises	15,137	1,373	176	1,591	18,277
Local Large Corporates	2,382	268	24	545	3,219
Public sector	9,179	155	-	6	9,340
Group Large Corporates	780	7	-	549	1,336
Commercial Real Estate	1,430	20	33	374	1,857
Group Market Trading	371	591	-	-	962
Group Market Financial Institutions	562	20	-	-	582
Asset/Liability Management	13,545	4	-	-	13,549
Other	98	26	11	11	146
Total	**61,371**	**7,335**	**1,103**	**4,893**	**74,702**
2017					
Retail	16,204	4,317	739	1,962	23,222
Small and Medium Enterprises	13,255	1,343	274	1,597	16,469
Local Large Corporates	2,302	942	93	382	3,719
Public sector	7,779	236	-	6	8,021
Group Large Corporates	959	-	-	1,143	2,102
Commercial Real Estate	787	37	4	792	1,620
Group Market Trading	952	274	35	-	1,261
Group Market Financial Institutions	506	6	-	-	512
Asset/Liability Management	14,378	1	-	4	14,383
Other	83	10	2	15	110
Total	**57,205**	**7,166**	**1,147**	**5,901**	**71,419**

					BANK
in HRK million	**Low risk**	**Management attention**	**Substandard**	**Non-performing**	**Credit risk exposure**
2018					
Retail	13,767	3,294	478	1,524	19,063
Small and Medium Enterprises	12,377	811	134	1,335	14,657
Local Large Corporates	2,400	406	25	464	3,295
Public sector	8,111	4	-	6	8,121
Group Large Corporates	677	6	-	366	1,049
Commercial Real Estate	1,429	19	33	362	1,843
Group Market Trading	501	591	-	-	1,092
Group Market Financial Institutions	553	15	-	-	568
Asset/Liability Management	13,669	61	-	-	13,730
Other	100	24	-	11	135
Total	**53,584**	**5,231**	**670**	**4,068**	**63,553**
2017					
Retail	12,312	3,257	443	1,561	17,573
Small and Medium Enterprises	10,929	827	222	1,408	13,386
Local Large Corporates	2,213	924	73	333	3,543
Public sector	7,467	123	-	5	7,595
Group Large Corporates	844	-	-	184	1,028
Commercial Real Estate	787	35	4	780	1,606
Group Market Trading	1,121	274	35	-	1,430
Group Market Financial Institutions	498	5	-	-	503
Asset/Liability Management	13,314	-	-	-	13,314
Other	86	11	2	12	111
Total	**49,571**	**5,456**	**779**	**4,283**	**60,089**

43.4) Credit risk (continued)

Credit risk exposure by business segment 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
2018							
Retail	20,637	3,001	1,790	6	25,434	-	25,434
Small and Medium Enterprises	15,889	820	1,501	64	18,274	3	18,277
Local Large Corporates	2,422	252	528	17	3,219	-	3,219
Public sector	9,329	9	2	-	9,340	-	9,340
Group Large Corporates	787	-	216	333	1,336	-	1,336
Commercial Real Estate	1,450	47	320	40	1,857	-	1,857
Group Market Trading	686	-	-	-	686	276	962
Group Market Financial Institutions	446	136	-	-	582	-	582
Asset/Liability Management	13,280	130	-	-	13,410	139	13,549
Other	95	26	11	-	132	14	146
Total	**65,021**	**4,421**	**4,368**	**460**	**74,270**	**432**	**74,702**

							BANK
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
2018							
Retail	15,772	1,787	1,498	6	19,063	-	19,063
Small and Medium Enterprises	12,873	474	1,247	63	14,657	-	14,657
Local Large Corporates	2,448	382	455	10	3,295	-	3,295
Public sector	8,111	8	2	-	8,121	-	8,121
Group Large Corporates	683	-	33	333	1,049	-	1,049
Commercial Real Estate	1,448	47	308	40	1,843	-	1,843
Group Market Trading	814	-	-	-	814	278	1,092
Group Market Financial Institutions	432	136	-	-	568	-	568
Asset/Liability Management	13,538	191	-	-	13,729	1	13,730
Other	100	10	11	-	121	14	135
Total	**56,219**	**3,035**	**3,554**	**452**	**63,260**	**293**	**63,553**

43.4) Credit risk (continued)

Non-performing credit risk exposure and allowances for credit risks

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. The default definition remained the same as disclosed in the Note B Significant Accounting Policies.- Impairment of financial assets and credit risk losses of contingent liabilities under IAS39 – comparative information.

Credit risk allowances (specific and portfolio allowances) in the Group covered 73.9% of the reported non-performing credit risk exposure as at 31 December 2018 and 71.7% 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 2018, the non-performing credit risk exposure in the Group decreased by HRK 1 billion from HRK 5.9 billion as at 31 December 2017 to HRK 4.9 billion as at 31 December 2018. During the same period, the non-performing credit risk exposure in the Bank decreased by HRK 215 million, from HRK 4.3 billion as at 31 December 2017 to HRK 4.1 billion as at 31 December 2018.

Credit risk allowances were decreased by HRK 679 million in the Group, from HRK 4.3 billion as at 31 December 2017 to HRK 3.6 billion as at 31 December 2018. The decrease of credit risk allowances in the Bank during 2018 was HRK 324 million from HRK 3.2 billion as at 31 December 2017 to 2.9 billion as at 31 December 2018.
The higher decrease of non performing credit risk exposure than credit risk allowances in the Group resulted with increase of the coverage of the non-performing credit risk exposure by credit risk allowances from 72.8% up to 73.9%, while in Bank higher decrease of credit risk allowance than non performing credit risk exposure was recorded so coverage of the non-performing credit risk exposure by credit risk allowances is decreasing from 75.7% to 71.7%.

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 2018 and 31 December 2017, 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.

43.4) 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)	NPE collateralization 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
2018										
Retail	1,817	1,817	25,434	25,434	(1,537)	565	7.1%	7.1%	84.7%	115.8%
Small and Medium Enterprises	1,591	1,591	18,277	18,275	(1,253)	751	8.7%	8.7%	78.8%	126.0%
Local Large Corporates	545	545	3,219	3,219	(307)	250	16.9%	16.9%	56.3%	102.3%
Public sector	6	6	9,340	9,340	(102)	3	0.1%	0.1%	>1,000%	>1,000%
Group Large Corporates	549	549	1,336	1,336	(81)	26	41.1%	41.1%	14.7%	19.4%
Commercial Real Estate	374	374	1,857	1,857	(277)	216	20.1%	20.1%	74.0%	131.8%
Group Market Trading	-	-	962	685	(21)	-	-	-	>1,000%	>1,000%
Group Market Financial Institutions	-	-	582	582	(2)	-	-	-	-	-
Asset/Liability Management	-	-	13,549	13,410	(25)	-	-	-	>1,000%	>1,000%
Other	11	11	146	132	(10)	-	7.8%	7.0%	102.1%	102.1%
Total	**4,893**	**4,893**	**74,702**	**74,270**	**(3,615)**	**1,811**	**6.5%**	**6.6%**	**73.9%**	**110.9%**

							GROUP
	Total credit risk exposure						
in HRK million	Non-performing	Total credit risk exposure	Total credit risk provisions	Specific allowances & provisions	Collective allowances & provisions	NPE ratio	NPE coverage ratio (excl. collateral)
2017							
Retail	1,962	23,222	(1,507)	(1,310)	(197)	8.5%	76.8%
Small and Medium Enterprises	1,597	16,469	(1,346)	(1,056)	(290)	9.7%	84.3%
Local Large Corporates	382	3,719	(315)	(267)	(48)	10.3%	82.3%
Public sector	6	8,021	(45)	(1)	(44)	0.1%	739.3%
Group Large Corporates	1,143	2,102	(447)	(432)	(15)	54.4%	39.2%
Commercial Real Estate	792	1,620	(608)	(587)	(21)	48.9%	76.8%
Group Market Trading	-	1,261	(2)	-	(2)	0.0%	812.8%
Group Market Financial Institutions	-	512	(2)	-	(2)	0.0%	>1,000%
Asset/Liability Management	4	14,383	(10)	(2)	(8)	0.0%	243.1%
Other	15	110	(13)	(11)	(2)	12.8%	86.1%
Total	**5,901**	**71,419**	**(4,295)**	**(3,666)**	**(629)**	**8.3%**	**72.8%**

43.4) Credit risk (continued)

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

										BANK
	Non-performing		Credit risk exposure		Credit loss allowances	Collateral for NPE	NPE ratio		NPE coverage (excl. collateral)	NPE collateralization 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
2018										
Retail	1,524	1,524	19,063	19,063	(1,229)	-	8.0%	8.0%	80.7%	80.7%
Small and Medium Enterprises	1,335	1,335	14,657	14,657	(1,019)	-	9.1%	9.1%	76.4%	76.4%
Local Large Corporates	464	464	3,295	3,295	(242)	-	14.1%	14.1%	52.0%	52.0%
Public sector	6	6	8,121	8,121	(92)	-	0.1%	0.1%	>1,000%	>1,000%
Group Large Corporates	366	366	1,049	1,049	(12)	-	34.9%	34.9%	3.1%	3.1%
Commercial Real Estate	362	362	1,843	1,843	(265)	-	19.7%	19.7%	73.1%	73.1%
Group Market Trading	-	-	1,092	814	(22)	-	-	-	>1,000%	>1,000%
Group Market Financial Institutions	-	-	568	568	(2)	-	-	-	-	-
Asset/Liability Management	-	-	13,730	13,729	(25)	-	-	-	-	-
Other	11	11	135	121	(10)	-	8.3%	9.3%	94.6%	94.6%
Total	**4,068**	**4,068**	**63,553**	**63,260**	**(2,918)**	**-**	**6.4%**	**6.4%**	**71.7%**	**71.7%**

							BANK
	Total credit risk exposure						
in HRK million	Non-performing	Total credit risk exposure	Total credit risk provisions	Specific allowances & provisions	Collective allowances & provisions	NPE ratio	NPE coverage ratio (excl. collateral)
2017							
Retail	1,561	17,573	(1,107)	(1,005)	(102)	8.9%	70.9%
Small and Medium Enterprises	1,408	13,386	(1,164)	(915)	(249)	10.5%	82.7%
Local Large Corporates	333	3,543	(289)	(242)	(47)	9.4%	86.7%
Public sector	5	7,595	(42)	-	(42)	0.1%	789.4%
Group Large Corporates	184	1,028	(27)	(12)	(15)	17.9%	14.7%
Commercial Real Estate	780	1,606	(596)	(575)	(21)	48.6%	76.4%
Group Market Trading	-	1,430	(2)	-	(2)	-	812.8%
Group Market Financial Institutions	-	503	(2)	-	(2)	-	>1,000%
Asset/Liability Management	-	13,314	(2)	-	(2)	-	>1,000%
Other	12	111	(12)	(9)	(2)	10.8%	94.2%
Total	**4,283**	**60,089**	**(3,243)**	**(2,758)**	**(484)**	**7.1%**	**75.7%**

43.4) 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.

43.4) Credit risk (continued)

Quantitative criteria

Quantitative SICR indicators include adverse changes in annualized lifetime probability of default and in life-time probability of default with significance being assessed by reference to a mix of relative and absolute change thresholds. In order to positively conclude on SICR for particular financial instrument, both relative and absolute thresholds need to be breached. Relative measure is calculated as ratio between current annualized PD and annualized PD value on initial recognition. These ratios are compared against limits set up as threshold for SICR assessment. 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 or client rating level for each consolidated entity, as necessary, and are subject to initial and ongoing validation.

Absolute threshold refers to difference of LT PD on initial recognition and current LT PD. It is set to 50 bps and serves as back-stop for migrations between the best ratings. In such cases relative thresholds are being breaches however overall PD is very low, therefore SICR is not positively concluded.

Relative thresholds for SICR assessment

	Threshold intervals		Sensitivity analysis			
			Threshold change +/- 0.5		Threshold change +/- 1	
in EUR million	Min	Max	ECL impact increase*	ECL impact decrease*	ECL impact increase	ECL impact decrease
2018						
Croatia	1,13	3,13	(0,8)	2,7	(1,8)	9,7
Total	**1,13**	**3,13**	**(0,8)**	**2,7**	**(1,8)**	**9,7**

*Increase/Decrease refers to increasing/lowering of threshold (i.e. current threshold equals 2,37 and sensitivity is 0,5, then increase refers to threshold of 2,87 and decrease to 1,87 – therefor increase leads to release of ECL and decrease to additional allocation.

Qualitative criteria

Qualitative SICR indicators are tested in SICR (Significant increase in credit risk) process which includes criteria like days past due, transfer to workout department, forbearance or other criteria on portfolio level. If one of qualitative criteria is breached then financial asset is assigned into stage 2 and the lifetime expected credit losses are recognized.
If none of the qualitative SICR indicators is breached then the low credit risk condition is tested. If credit risk on financial asset is considered as a low then financial asset is assigned into stage 1 and 12 months expected credit losses are recognized.
If credit risk on financial asset is not considered as low or if low credit risk condition is not applied then the quantitative criteria are tested.
Otherwise financial asset is assigned into stage 1 and 12 months expected credit losses are recognized.
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43.4) Credit risk (continued)

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 Group doesn't use „low risk exemption" criteria for measuring a significant increase in credit risk.

Measuring ECL – explanation of inputs and measurement

Collective allowances are calculated for exposures to non-defaulted customers according to a rule-based approach irrespective of the significance of the customer, except for credit loss allowances against in-scope debt securities issued by non-defaulted issuers, for which, in general, an individual calculation approach is applied.

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 on the customer segment (retail, corporate) and include product type, collateral type, repayment type, loan to value band or credit rating band.

The calculation of credit loss allowances is done on a monthly basis on single exposure level and in the contractual currency of the exposure. To compute the credit loss allowance, Erste Group applies an expected credit loss (ECL) model based on a three stages approach that either leads to a twelve-month ECL or to a lifetime ECL. ECL is discounted product of exposure at default (EAD) that includes as well credit conversion factor in case of off balance sheet exposures, probability of default (PD) and loss given default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per definition of default below), either over next 12 month (1Y PD) or over remaining lifetime (LT PD).
- EAD is based on the amounts the Group expects to be owed at the time of default, over next 12 months (1Y EAD) or over remaining lifetime (LT EAD). Group includes to the estimation current balance, expected repayments and expected drawings up to the current contractual limit by the time of default, should it occur.
- LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit exposure at the time of default (EAD).

Lifetime parameters

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.

1Y and LT EADs are determined based on the expected payment profiles, which vary by different product types. LT EAD calculation utilizes repayment schedule or repayment type (annuity, linear, bullet). In case of undrawn commitments, credit conversion factor is estimated for reflecting them properly in 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 may differ from the risk parameters compliant to capital requirement regulations if the characteristics of the respective portfolio in combination with IFRS standards necessitate this.

43.4) Credit risk (continued)

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.

Baseline, upside and downside scenarios of GDP development by geographical segment:

	Scenario	Probability weight	2018	2019	2020	2021
Croatia	Upside	18%	2.8	4.2	5.5	5.3
	Baseline	50%	2.8	2.7	2.6	2.7
	Downside	32%	2.8	1.2	(0.3)	0.1

Expected credit loss is the present value of all cash shortfalls over the expected life of the financial asset. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. Because expected credit losses consider the amount and timing of payments, a credit loss arises even if the entity expects to be paid in full but later than when contractually due.

The ECL can be estimated either on individual or collective basis.

1) The individual approach is applied in case of individually significant customers.
2) The collective assessment (or so-called rule-based approach) is applied in case of individually not significant clients

The following table shows the credit risk allowances divided into on-balance and off-balance allowances at 31 December 2018 and specific and collective allowances and allowances for guarantees as at 31 December 2017.

Composition of credit loss allowances

		GROUP
in HRK million	**2017**	**2018**
Specific allowances	(3,645)	x
Collective allowances	(500)	x
Provisions for guarantees	(150)	x
Credit loss allowances	x	(3,527)
Loss allowances for loan commitments and financial guarantees	x	(94)
Provisions for other commitments	x	-
Total	**(4,295)**	**(3,621)**

		BANK
in HRK million	**2017**	**2018**
Specific allowances	(2,746)	x
Collective allowances	(375)	x
Provisions for guarantees	(122)	x
Credit loss allowances	x	(2,853)
Loss allowances for loan commitments and financial guarantees	x	(69)
Provisions for other commitments	x	-
Total	**(3,243)**	**(2,922)**

43.4) Credit risk (continued)

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.

43.4) 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 2018 and 31 December 2017. In this table, total credit risk exposure does not include Trading assets and Positive fair value of derivative financial instruments while includes Cash balances at central banks.

Credit risk exposure, forbearance exposure and credit loss allowances

				GROUP
in HRK million	Loans and advances	Debt securities	Loan commitments and financial guarantees	Total
2018				
Gross exposure	**58,619**	**9,955**	**9,024**	**77,598**
thereof gross forborne exposure	1,725	-	-	1,725
Performing exposure	53,888	9,955	8,862	72,705
thereof performing forborne exposure	270	-	-	270
Credit loss allowances for performing exposure	(556)	(36)	(63)	(655)
thereof credit loss allowances for performing forborne exposure	(24)	-	-	(24)
Non-performing exposure	4,731	-	162	4,893
thereof non-performing forborne exposure	1,455	-	-	1,455
Credit loss allowances for non-performing exposure	(2,934)	-	(31)	(2,965)
thereof credit loss allowances for non-performing forborne exposure	(556)	-	-	(556)

				GROUP
in HRK million	Loans and receivables	Financial assets	Contingent liabilities	Total
2017				
Gross exposure	**55,815**	**9,641**	**8,450**	**73,906**
thereof gross forborne exposure	1,400	-	6	1,406
Performing exposure	49,985	9,641	8,379	68,005
thereof performing forborne exposure	321	-	4	325
Credit risk provisions for performing exposure	(493)	(7)	(128)	(628)
thereof credit risk provisions for performing forborne exposure	(26)	-	-	(26)
Non-performing exposure	5,830	-	71	5,901
thereof non-performing forborne exposure	1,079	-	2	1,081
Credit risk provisions for non-performing exposure	(3,645)	-	(22)	(3,667)
thereof credit risk provisions for non-performing forborne exposure	(553)	-	-	(553)

43.4) Credit risk (continued)

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

				BANK
in HRK million	Loans and advances	Debt securities	Loan commitments and financial guarantees	Total
2018				
Gross exposure	**51,042**	**8,943**	**6,105**	**66,090**
thereof gross forborne exposure	1,660	-	-	1,660
Performing exposure	47,114	8,943	5,965	62,022
thereof performing forborne exposure	246	-	-	246
Credit loss allowances for performing exposure	(439)	(33)	(44)	(516)
thereof credit loss allowances for performing forborne exposure	(22)	-	-	(22)
Non-performing exposure	3,928	-	140	4,068
thereof non-performing forborne exposure	1,414	-	-	1,414
Credit loss allowances for non-performing exposure	(2,380)	-	(25)	(2,405)
thereof credit loss allowances for non-performing forborne exposure	(524)	-		(524)

				BANK
in HRK million	Loans and receivables	Financial assets	Contingent liabilities	Total
2017				
Gross exposure	**47,563**	**8,746**	**6,048**	**62,357**
thereof gross forborne exposure	1,169	-	6	1,175
Performing exposure	43,318	8,746	6,010	58,074
thereof performing forborne exposure	306	-	4	310
Credit risk provisions for performing exposure	(371)	(5)	(107)	(483)
thereof credit risk provisions for performing forborne exposure	(26)	-	-	(26)
Non-performing exposure	4,245	-	38	4,283
thereof non-performing forborne exposure	864	-	2	866
Credit risk provisions for non-performing exposure	(2,745)	-	(14)	(2,759)
thereof credit risk provisions for non-performing forborne exposure	(408)	-	-	(408)

Collateral

Recognition of collateral
The Collateral Management unit is a staff unit within the Collection and Workout 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 broken down by class in accordance with the individual supervisory requirements. Whether a type of security or a specific collateral asset is accepted for credit risk mitigation is decided by Collection and Workout department in cooperation with 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.

43.4) 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.

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43.4) Credit risk (continued)

The following tables compare the credit risk exposure broken down by business and geographical segments as at 31 December 2018 and 31 December 2017 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
2018						
Retail	25,434	7,965	45	6,508	1,412	17,469
Small and Medium Enterprises	18,277	9,343	759	6,161	2,423	8,934
Local Large Corporates	3,219	1,778	1,161	500	117	1,441
Public sector	9,340	1,981	1,784	44	153	7,359
Group Large Corporates	1,336	142	39	66	37	1,194
Commercial Real Estate	1,857	1,057	-	1,039	18	800
Group Market Trading	962	611	-	-	611	351
Group Market Financial Institutions	582	35	-	12	23	547
Asset/Liability Management	13,549	-	-	-	-	13,549
Other	146	-	-	-	-	146
Total	**74,702**	**22,912**	**3,788**	**14,330**	**4,794**	**51,790**
2017						
Retail	23,222	7,698	22	6,250	1,426	15,524
Small and Medium Enterprises	16,469	7,818	616	5,536	1,666	8,651
Local Large Corporates	3,719	2,242	1,448	476	318	1,477
Public sector	8,021	2,599	2,384	61	154	5,422
Group Large Corporates	2,102	116	30	62	24	1,986
Commercial Real Estate	1,620	783	-	752	31	837
Group Market Trading	1,261	859	-	-	859	402
Group Market Financial Institutions	512	42	-	14	28	470
Asset/Liability Management	14,383	-	-	-	-	14,383
Other	110	-	-	-	-	110
Total	**71,419**	**22,157**	**4,500**	**13,151**	**4,506**	**49,262**

						BANK
in HRK million	Credit risk exposure	Collateral total	Guarantees	Real estate	Other	Credit risk exposure net of collateral
2018						
Retail	19,063	6,618	45	5,839	734	12,445
Small and Medium Enterprises	14,657	7,654	739	5,520	1,395	7,003
Local Large Corporates	3,295	1,741	1,161	500	80	1,554
Public sector	8,121	1,765	1,689	43	33	6,356
Group Large Corporates	1,049	104	39	64	1	945
Commercial Real Estate	1,843	1,056	-	1,039	17	787
Group Market Trading	1,092	611	-	-	611	481
Group Market Financial Institutions	568	27	-	12	15	541
Asset/Liability Management	13,730	-	-	-	-	13,730
Other	135	-	-	-	-	135
Total	**63,553**	**19,576**	**3,673**	**13,017**	**2,886**	**43,977**
2017						
Retail	17,573	6,544	22	5,619	903	11,029
Small and Medium Enterprises	13,386	6,429	565	5,009	855	6,957
Local Large Corporates	3,543	2,197	1,448	476	273	1,346
Public sector	7,595	2,377	2,277	61	39	5,218
Group Large Corporates	1,028	92	30	62	-	936
Commercial Real Estate	1,606	782	-	752	30	824
Group Market Trading	1,430	859	-	-	859	571
Group Market Financial Institutions	503	35	-	14	21	468
Asset/Liability Management	13,314	-	-	-	-	13,314
Other	111	-	-	-	-	111
Total	**60,089**	**19,315**	**4,342**	**11,993**	**2,980**	**40,774**

43.4) Credit risk (continued)

Credit risk exposure by financial instrument and collateral

GROUP

in HRK million	Total credit risk expo-sure	Collate-ral total	Collateralised by			Credit risk exposure net of col-lateral	Neither past due nor credit impaired	Past due but not credit impaired	Credit im-paired
			Guaran-tees	Real estate	Other				
2018									
Other demand deposits to credit institu-tions	243	-	-	-	-	243	59	184	-
Debt instruments held for trading	278	-	-	-	-	278	-	-	-
Non-trading debt instruments at FVPL	154	-	-	-	-	154	-	-	-
Debt instruments at FVOCI	8,333	-	-	-	-	8,333	8,333	-	-
Debt instruments at AC	52,675	19,694	3,537	13,419	2,738	32,981	46,678	1,937	4,060
Debt securities	1,275	-	-	-	-	1,275	1,275	-	-
Loans and advances to banks	5,234	163	-	-	163	5,071	5,234	-	-
Loans and advances to customers	46,166	19,531	3,537	13,419	2,575	26,635	40,169	1,937	4,060
Trade and other receivables	1,889	9	1	6	2	1,880	1,140	197	552
Finance lease receivables	2,106	1,767	-	-	1,767	339	1,516	539	51
Off balance-sheet exposures	9,024	1,442	250	905	287	7,582	8,784	78	162
Total	**74,702**	**22,912**	**3,788**	**14,330**	**4,794**	**51,790**	**66,510**	**2,935**	**4,825**

GROUP

in HRK million	Total credit risk exposure	Collateral total	Collateralised by			Credit risk exposure net of collateral	Neither past due nor impaired	Past due but not impaired	Impaired
			Guarantees	Real estate	Other				
2017									
Other demand deposits	413	-	-	-	-	413	38	375	-
Loans and advances to credit institutions	5,235	106	-	-	106	5,129	5,187	48	-
Loans and advances to customers	47,432	20,597	4,067	12,433	4,097	26,835	38,310	3,371	5,751
Held to maturity	1,886	-	-	-	-	1,886	1,785	101	-
Trading assets	195	-	-	-	-	195	195	-	-
At fair value through profit or loss	-	-	-	-	-	-	-	-	-
Available for sale	7,756	-	-	-	-	7,756	7,756	-	-
Positive fair value of derivative financial instruments	52	-	-	-	-	52	52	-	-
Contingent credit liabilities	8,450	1,454	433	718	303	6,996	8,214	177	59
Total	**71,419**	**22,157**	**4,500**	**13,151**	**4,506**	**49,262**	**61,537**	**4,072**	**5,810**

43.4) Credit risk (continued)

Credit risk exposure by financial instrument and collateral (continued)

BANK

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
2018									
Other demand deposits to credit institutions	175	-	-	-	-	175	16	159	-
Debt instruments held for trading	279	-	-	-	-	279	-	-	-
Non-trading debt instruments at FVPL	14	-	-	-	-	14	-	-	-
Debt instruments at FVOCI	7,739	-	-	-	-	7,739	7,739	-	-
Debt instruments at AC	48,884	18,295	3,422	12,250	2,623	30,589	43,790	1,284	3,810
Debt securities	1,021	-	-	-	-	1,021	1,021	-	-
Loans and advances to banks	5,314	163	-	-	163	5,151	5,314	-	-
Loans and advances to customers	42,549	18,132	3,422	12,250	2,460	24,417	37,455	1,284	3,810
Trade and other receivables	357	7	1	6	-	350	114	191	52
Off balance-sheet exposures	6,105	1,274	250	761	263	4,831	5,890	75	140
Total	**63,553**	**19,576**	**3,673**	**13,017**	**2,886**	**43,977**	**57,549**	**1,709**	**4,002**

BANK

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 impaired	Past due but not impaired	Impaired
2017									
Other demand deposits	283	-	-	-	-	283	18	265	-
Loans and advances to credit institutions	5,134	104	-	-	104	5,030	5,087	47	-
Loans and advances to customers	39,626	17,860	3,910	11,353	2,597	21,766	33,529	1,927	4,170
Held to maturity	1,396	-	-	-	-	1,396	1,295	101	-
Trading assets	195	-	-	-	-	195	195	-	-
At fair value through profit or loss	-	-	-	-	-	-	-	-	-
Available for sale	7,352	-	-	-	-	7,352	7,352	-	-
Positive fair value of derivative financial instruments	55	-	-	-	-	55	55	-	-
Contingent credit liabilities	6,048	1,351	432	640	279	4,697	5,865	147	36
Total	**60,089**	**19,315**	**4,342**	**11,993**	**2,980**	**40,774**	**53,396**	**2,487**	**4,206**

43.4) Credit risk (continued)

Credit risk exposure neither past due nor credit impaired by financial instrument and risk category

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Total
2018					
Cash and cash balances - demand deposits to central banks and credit institutions	59	-	-	-	59
Debt instruments held for trading	272	6	-	-	278
Non-trading debt instruments at FVPL	140	14	-	-	154
Debt instruments at FVOCI	8,333	-	-	-	8,333
Debt instruments at AC	41,262	5,354	554	57	47,227
Debt securities	1,275	-	-	-	1,275
Loans and advances to banks	5,071	163	-	-	5,234
Loans and advances to customers	34,916	5,191	554	57	40,718
Trade and other receivables	822	188	130	-	1,140
Finance lease receivables	1,370	128	18	-	1,516
Debt instruments held for sale in disposal groups	-	-	-	-	-
Positive fair value of hedge accounting derivatives	-	-	-	-	-
Off balance-sheet exposures	7,654	1,008	122	-	8,784
Total	**59,912**	**6,698**	**824**	**57**	**67,491**

					BANK
in HRK million	Low risk	Management attention	Substandard	Non-performing	Total
2018					
Cash and cash balances - demand deposits to central banks and credit institutions	16	-	-	-	16
Debt instruments held for trading	273	6	-	-	279
Non-trading debt instruments at FVPL	-	14	-	-	14
Debt instruments at FVOCI	7,739	-	-	-	7,739
Debt instruments at AC	39,076	4,286	373	55	43,790
Debt securities	1,021	-	-	-	1,021
Loans and advances to banks	5,151	163	-	-	5,314
Loans and advances to customers	32,904	4,123	373	55	37,455
Trade and other receivables	100	14	-	-	114
Finance lease receivables	-	-	-	-	-
Debt instruments held for sale in disposal groups	-	-	-	-	-
Positive fair value of hedge accounting derivatives	-	-	-	-	-
Off balance-sheet exposures	5,355	482	53	-	5,890
Total	**52,559**	**4,802**	**426**	**55**	**57,842**

43.4) Credit risk (continued)

The following tables show the credit risk exposure that was past due and not impaired as at 31 December 2018 and 31 December 2017 respectively.

Credit risk exposure past due and not impaired by financial instrument and collateralisation

												GROUP
	Total credit risk exposure						Thereof collateralised					
in HRK million	Total	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due	Total	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof mor than 180 days past due
2018												
Other demand deposits to credit institutions	184	59	125	-	-	-	-	-	-	-	-	-
Non-trading debt instru-ments at FVPL	-	-	-	-	-	-	-	-	-	-	-	-
Debt instruments at AC	1,937	1,601	292	35	9	-	642	567	68	5	1	-
Loans and advances to customers	1,937	1,601	292	35	9	-	642	567	68	5	1	-
Trade and other receivables	197	59	136	2	-	-	-	-	-	-	-	-
Finance lease receivables	539	425	102	12	-	-	-	-	-	-	-	-
Off balance-sheet exposu-res	78	77	1	-	-	-	25	24	1	-	-	-
Total	**2,935**	**2,221**	**656**	**49**	**9**	**-**	**667**	**591**	**69**	**5**	**1**	**-**

												GROUP
	Credit risk exposure past due						Thereof collateralised					
in HRK million	Total	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due	Total	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due
2017												
Other demand deposits	375	372	3	-	-	-	-	-	-	-	-	-
Loans and advances to credit institutions	48	44	3	-	1	-	-	-	-	-	-	-
Loans and advances to customers	3,371	2,707	477	176	7	4	1,511	1,166	208	135	2	-
Held to maturity	101	-	101	-	-	-	-	-	-	-	-	-
Contingent credit liabilities	177	160	16	-	-	1	12	11	1	-	-	-
Total	**4,072**	**3,283**	**600**	**176**	**8**	**5**	**1,523**	**1,177**	**209**	**135**	**2**	**-**

43.4) Credit risk (continued)

Credit risk exposure past due and not impaired by financial instrument and collateralisation (continued)

												BANK
	Total credit risk exposure						Thereof collateralised					
in HRK million	Total	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due	Total	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due
2018												
Other demand deposits to credit institutions	159	33	126	-	-	-	-	-	-	-	-	-
Debt instruments at AC	1,284	1,079	185	12	8	-	585	518	61	5	1	-
Loans and advances to customers	1,284	1,079	185	12	8	-	585	518	61	5	1	-
Trade and other receivables	191	55	133	2	-	1	-	-	-	-	-	-
Off balance-sheet exposures	75	73	2	-	-	-	25	24	1	-	-	-
Total	**1,709**	**1,240**	**446**	**14**	**8**	**1**	**610**	**542**	**62**	**5**	**1**	**-**

												BANK
	Credit risk exposure past due						Thereof collateralised					
in HRK million	Total	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due	Total	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due
2017												
Other demand deposits	265	262	3	-	-	-	-	-	-	-	-	-
Loans and advances to credit institutions	47	43	3	-	1	-	-	-	-	-	-	-
Loans and advances to customers	1,927	1,513	261	143	6	4	1,028	752	148	126	2	-
Held to maturity	101	-	101	-	-	-	-	-	-	-	-	-
Contingent credit liabilities	147	130	16	-	-	1	11	11	-	-	-	-
Total	**2,487**	**1,948**	**384**	**143**	**7**	**5**	**1,039**	**763**	**148**	**126**	**2**	**-**

43.4) Credit risk (continued)

Loans to and receivables from customers

The following table shows loans to and receivables from customers divided by business segments and risk category as at 31 December 2018 and 31 December 2017 respectively.

Loans and advances to customers by business segment and risk category

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Total
2018					
Retail	15,298	4,513	806	1,797	22,414
Small and Medium Enterprises	11,298	960	117	1,536	13,911
Local Large Corporates	2,129	69	12	457	2,667
Public sector	7,496	106	-	6	7,608
Group Large Corporates	571	1	-	549	1,121
Commercial Real Estate	1,169	20	33	374	1,596
Group Market Trading	71	421	-	-	492
Group Market Financial Institutions	42	18	-	-	60
Asset/Liability Management	5	-	-	-	5
Other	55	2	12	11	80
Total	**38,134**	**6,110**	**980**	**4,730**	**49,954**

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Total
2017					
Retail	13,937	4,139	711	1,939	20,726
Small and Medium Enterprises	9,738	1,023	206	1,556	12,523
Local Large Corporates	1,898	717	74	381	3,070
Public sector	7,139	236	-	6	7,381
Group Large Corporates	367	-	-	1,143	1,510
Commercial Real Estate	528	37	4	791	1,360
Group Market Trading	556	169	35	-	760
Group Market Financial Institutions	51	4	-	-	55
Asset/Liability Management	5	-	-	-	5
Other	28	1	0	14	43
Total	**34,247**	**6,326**	**1,030**	**5,830**	**47,433**

43.4) Credit risk (continued)

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

					BANK
in HRK million	**Low risk**	**Management at-tention**	**Substandard**	**Non-performing**	**Total**
2018					
Retail	12,706	3,207	476	1,520	17,909
Small and Medium Enterprises	9,472	623	93	1,285	11,473
Local Large Corporates	2,095	188	13	376	2,672
Public sector	7,213	3	-	6	7,222
Group Large Corporates	467	-	-	366	833
Commercial Real Estate	1,168	20	33	362	1,583
Group Market Trading	200	421	-	-	621
Group Market Financial Institutions	35	14	-	-	49
Asset/Liability Management	205	60	-	-	265
Other	62	1	-	12	75
Total	**33,623**	**4,537**	**615**	**3,927**	**42,702**

					BANK
in HRK million	**Low risk**	**Management at-tention**	**Substandard**	**Non-performing**	**Total**
2017					
Retail	11,370	3,189	441	1,560	16,560
Small and Medium Enterprises	8,107	616	161	1,374	10,258
Local Large Corporates	1,747	698	54	332	2,831
Public sector	6,827	123	-	5	6,955
Group Large Corporates	252	-	-	184	436
Commercial Real Estate	528	35	4	779	1,346
Group Market Trading	722	169	35	-	927
Group Market Financial Institutions	44	4	-	-	47
Asset/Liability Management	223	-	-	-	223
Other	29	1	-	12	42
Total	**29,849**	**4,835**	**695**	**4,246**	**39,625**

43.4) Credit risk (continued)

The following table shows loans to and receivables from customers divided by business segments and IFRS 9 treatment as at 31 December 2018 and 31 December 2017 respectively.

Loans and advances to customers by business segment and IFRS 9 treatment

GROUP

	Loans to customers					Loan loss allowances						
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 coverage ratio	Stage 3 coverage ratio	POCI coverage ratio
2018												
Retail	18,271	2,367	1,770	6	-	(105)	(154)	(1,261)	(2)	6.5%	71.2%	38.8%
Small and Medium Enterprises	11,842	561	1,444	64	-	(93)	(42)	(1,035)	(28)	7.5%	71.6%	44.9%
Local Large Corporates	2,166	44	440	17	-	(43)	(5)	(248)	(2)	8.7%	56.4%	14.9%
Public sector	7,598	8	2	-	-	(73)	-	(2)	-	2.7%	100.0%	-
Group Large Corporates	572	-	216	333	-	(1)	-	(72)	(7)	2.4%	33.3%	2.0%
Commercial Real Estate	1,189	47	320	40	-	(6)	(11)	(252)	(7)	22.8%	78.7%	16.9%
Group Market Trading	491	1	-	-	-	(18)	-	-	-	-	100.0%	-
Group Market Financial Institutions	59	1	-	-	-	(1)	-	-	-	3.4%	-	-
Asset/Liability Management	5	-	-	-	-	-	-	-	-	6.4%	-	-
Other	51	18	11	-	-	-	(1)	(10)	-	5.0%	92.0%	-
Total	**42,244**	**3,047**	**4,203**	**460**	**-**	**(340)**	**(213)**	**(2,880)**	**(46)**	**6.9%**	**68.5%**	**10.1%**

BANK

	Loans to customers					Loan loss allowances						
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 coverage ratio	Stage 3 coverage ratio	POCI coverage ratio
2018												
Retail	14,905	1,504	1,494	6	-	(62)	(107)	(1,053)	(2)	7.1%	70.5%	38.8%
Small and Medium Enterprises	9,800	413	1,198	62	-	(75)	(37)	(838)	(28)	9.0%	69.9%	46.2%
Local Large Corporates	2,121	174	367	10	-	(44)	(5)	(182)	(2)	3.1%	49.4%	25.7%
Public sector	7,213	8	1	-	-	(69)	-	(2)	-	2.6%	100.0%	-
Group Large Corporates	467	-	33	333	-	(1)	-	(3)	(7)	2.4%	10.0%	2.0%
Commercial Real Estate	1,187	47	309	40	-	(6)	(11)	(240)	(7)	22.8%	77.9%	16.9%
Group Market Trading	621	-	-	-	-	(18)	-	-	-	-	100.0%	-
Group Market Financial Institutions	48	1	-	-	-	(1)	-	-	-	3.9%	-	-
Asset/Liability Management	205	60	-	-	-	-	(1)	-	-	1.2%	-	-
Other	57	7	11	-	-	-	-	(10)	-	0.7%	92.0%	-
Total	**36,624**	**2,214**	**3,413**	**451**	**-**	**(276)**	**(161)**	**(2,328)**	**(46)**	**7.3%**	**68.2%**	**10.3%**

43.4) Credit risk (continued)

In the following tables, the non-performing loans to and receivables from customers divided by reporting segment are contrasted with allowances for customer loans (specific and collective allowances) 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 specific and collective allowances as well as by collateral for non-performing loans.

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 colla-teral)	NPL collatera-lisation ratio
in HRK million	Total	AC	Total	AC	AC	AC	Total	AC	AC	AC
2018										
Retail	1,797	1,797	22,414	22,414	(1,522)	564	8.0%	8.0%	84.7%	116.1%
Small and Medium Enterprises	1,536	1,536	13,911	13,911	(1,198)	742	11.0%	11.0%	78.0%	126.3%
Local Large Corporates	457	457	2,667	2,667	(298)	176	17.1%	17.1%	65.3%	103.7%
Public sector	6	6	7,608	7,608	(75)	3	0.1%	0.1%	>1,000%	>1,000%
Group Large Corporates	549	549	1,121	1,121	(80)	31	49.0%	49.0%	14.5%	20.3%
Commercial Real Estate	374	374	1,596	1,596	(276)	216	23.4%	23.4%	73.6%	131.5%
Group Market Trading	-	-	492	492	(18)	-	0.1%	0.1%	>1,000%	>1,000%
Group Market Financial Institutions	-	-	60	60	(1)	-	-	-	-	-
Asset/Liability Manage-ment	-	-	5	5	-	-	-	-	-	-
Other	11	11	80	80	(11)	-	14.3%	14.2%	101.3%	101.3%
Total	**4,730**	**4,730**	**49,954**	**49,954**	**(3,479)**	**1,732**	**9.5%**	**9.5%**	**73.5%**	**110.2%**

									GROUP
in HRK million	Non-performing	Gross customer loans	Allowances for customer loans	Specific allowances	Collective allowances	NPL ratio	NPL coverage ratio (excl. collateral)	Collate-ral for NPL	NPL total coverage ratio
2017									
Retail	1,939	20,726	(1,491)	(1,306)	(185)	9.4%	76.9%	625	109.1%
Small and Medium Enterprises	1,556	12,523	(1,247)	(1,041)	(206)	12.4%	80.2%	813	132.4%
Local Large Corpora-tes	381	3,070	(303)	(267)	(37)	12.4%	79.6%	79	100.2%
Public sector	6	7,381	(37)	(1)	(37)	0.1%	616.3%	4	689.4%
Group Large Corpo-rates	1,143	1,510	(439)	(433)	(6)	75.7%	38.4%	35	41.5%
Commercial Real Es-tate	791	1,359	(602)	(587)	(15)	58.2%	76.1%	390	125.4%
Group Market Tra-ding	-	760	(2)	-	(1)	-	620.7%	-	620.7%
Group Market Finan-cial Institutions	-	55	(2)	-	(2)	-	-	-	-
Asset/Liability Mana-gement	-	5	-	-	-	-	-	-	-
Other	14	43	(12)	(11)	-	32.6%	83.3%	-	83.3%
Total	**5,830**	**47,432**	**(4,135)**	**(3,646)**	**(489)**	**12.3%**	**70.9%**	**1.946**	**104.3%**

43.4) Credit risk (continued)

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)	NPL collateralisation ratio
in HRK million	Total	AC	Total	AC	AC	AC	Total	AC	AC	AC
2018										
Retail	1,520	1,520	17,909	17,909	(1,224)	526	8.5%	8.5%	80.6%	115.2%
Small and Medium Enterprises	1,285	1,285	11,473	11,473	(978)	679	11.2%	11.2%	76.1%	128.9%
Local Large Corporates	376	376	2,672	2,672	(233)	170	14.1%	14.1%	61.8%	107.1%
Public sector	6	6	7,222	7,222	(71)	3	0.1%	0.1%	>1,000%	>1,000%
Group Large Corporates	366	366	833	833	(11)	26	43.9%	43.9%	2.9%	10.0%
Commercial Real Estate	362	362	1,583	1,583	(264)	216	22.9%	22.9%	72.8%	132.5%
Group Market Trading	-	-	621	621	(18)	-	-	-	>1,000%	>1,000%
Group Market Financial Institutions	-	-	49	49	(1)	-	-	-	-	-
Asset/Liability Management	-	-	265	265	(1)	-	-	-	-	-
Other	12	12	75	75	(10)	-	15.2%	15.2%	93.3%	93.3%
Total	**3,927**	**3,927**	**42,702**	**42,702**	**(2,811)**	**1,620**	**9.2%**	**9.2%**	**71.6%**	**112.8%**

									BANK
in HRK million	Non-performing	Gross customer loans	Allowances for customer loans	Specific allowances	Collective allowances	NPL ratio	NPL coverage ratio (excl. collateral)	Collateral for NPL	NPL total coverage ratio
2017									
Retail	1,560	16,560	(1,102)	(1,004)	(98)	9.4%	70.6%	587	108.2%
Small and Medium Enterprises	1,374	10,259	(1,079)	(902)	(177)	13.4%	78.4%	768	134.3%
Local Large Corporates	332	2,831	(277)	(242)	(35)	11.7%	83.6%	72	105.3%
Public sector	5	6,955	(35)	-	(35)	0.1%	649.8%	4	719.3%
Group Large Corporates	184	436	(18)	(12)	(6)	42.1%	9.9%	27	24.5%
Commercial Real Estate	779	1,346	(590)	(575)	(15)	57.9%	75.7%	390	125.8%
Group Market Trading	-	927	(1)	-	(1)	-	620.7%	-	620.7%
Group Market Financial Institutions	-	47	(2)	-	(2)	-	-	-	-
Asset/Liability Management	-	223	-	-	-	-	-	-	-
Other	12	42	(10)	(10)	-	27.7%	90.7%	-	90.7%
Total	**4,246**	**39,626**	**(3,114)**	**(2,745)**	**(369)**	**10.7%**	**73.3%**	**1.848**	**116.9%**

43.4) Credit risk (continued)

Loans and advances to customers by business segment and currency

						GROUP
in HRK million	**EUR**	**HRK**	**CHF**	**USD**	**Other**	**Total**
2018						
Retail	9,532	12,718	159	5	-	22,414
Small and Medium Enterprises	11,046	2,747	48	6	64	13,911
Local Large Corporates	2,045	609	-	13	-	2,667
Public sector	6,222	1,386	-	-	-	7,608
Group Large Corporates	786	307	-	28	-	1,121
Commercial Real Estate	1,579	17	-	-	-	1,596
Group Market Trading	39	33	-	420	-	492
Group Market Financial Institutions	34	26	-	-	-	60
Asset/Liability Management	5	-	-	-	-	5
Other	9	47	-	24	-	80
Total	**31,297**	**17,890**	**207**	**496**	**64**	**49,954**

						GROUP
in HRK million	**EUR**	**HRK**	**CHF**	**USD**	**Other**	**Total**
2017						
Retail	9,722	10,821	176	8	-	20,727
Small and Medium Enterprises	9,952	2,439	78	17	37	12,523
Local Large Corporates	2,515	555	-	-	-	3,070
Public sector	6,730	644	7	-	-	7,381
Group Large Corporates	1,352	123	-	35	-	1,510
Commercial Real Estate	1,076	76	207	-	-	1,359
Group Market Trading	340	236	-	184	-	760
Group Market Financial Institutions	40	15	-	-	-	55
Asset/Liability Management	5	-	-	-	-	5
Other	21	14	-	-	7	42
Total	**31,753**	**14,923**	**468**	**244**	**44**	**47,432**

43.4) Credit risk (continued)

Loans and advances to customers by business segment and currency (continued)

						BANK
in HRK million	**EUR**	**HRK**	**CHF**	**USD**	**Other**	**Total**
2018						
Retail	7,145	10,609	150	5	-	17,909
Small and Medium Enterprises	9,181	2,179	46	3	64	11,473
Local Large Corporates	1,980	679	-	13	-	2,672
Public sector	5,919	1,303	-	-	-	7,222
Group Large Corporates	559	246	-	28	-	833
Commercial Real Estate	1,567	16	-	-	-	1,583
Group Market Trading	39	162	-	420	-	621
Group Market Financial Institutions	26	23	-	-	-	49
Asset/Liability Management	5	260	-	-	-	265
Other	8	43	-	24	-	75
Total	**26,429**	**15,520**	**196**	**493**	**64**	**42,702**

						BANK
in HRK million	**EUR**	**HRK**	**CHF**	**USD**	**Other**	**Total**
2017						
Retail	7,635	8,746	172	8	-	16,561
Small and Medium Enterprises	8,070	2,068	69	14	37	10,258
Local Large Corporates	2,344	487	-	-	-	2,831
Public sector	6,331	617	7	-	-	6,955
Group Large Corporates	373	28	-	35	-	436
Commercial Real Estate	1,064	75	207	-	-	1,346
Group Market Trading	340	403	-	184	-	927
Group Market Financial Institutions	34	13	-	-	-	47
Asset/Liability Management	23	200	-	-	-	223
Other	21	13	-	-	8	42
Total	**26,235**	**12,650**	**455**	**241**	**45**	**39,626**

43.5) 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 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 analysis 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 is 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 on the basis of 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 on the basis of a proposal from the Market Risk Management unit.

43.5) 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 2018 and 31 December 2017 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 2018

in HRK thousands	Total	Interest	Currency	Shares	Commodity	Volatility
Banking book	22,084	22,062	152	0.8	-	-
Fixed Income AFS	16,481	16,492	64	-	-	-
Fixed Income Investment	4,939	4,938	-	-	-	-
Trading book	62	65	12	-	-	-

Value at Risk of banking book and trading book 2017

n HRK thousands	Total	Interest	Currency	Shares	Commodity	Volatility
Banking book	17,409	17,595	615	2,221	-	-
Fixed Income AFS	11,856	11,873	49	-	-	-
Fixed Income Investment	3,466	3,468	-	-	-	-
Trading book	839	841	15	-	-	-

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 on the basis of modeled 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 2018 and 31 December 2017.

43.5) 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 2018

in HRK million	1(3) years	3(5) years	5(7) years	7(10) years	Over 10 years
Fixed-interest gap in HRK positions	2,093	2,361	571	452	212
Fixed-interest gap in EUR positions	(658)	610	1,078	820	524

Open fixed-income positions not assigned to the trading book in 2017

in HRK million	1(3) years	3(5) years	5(7) years	7(10) years	Over 10 years
Fixed-interest gap in HRK positions	1,030	1,365	978	120	63
Fixed-interest gap in EUR positions	(209)	186	207	197	222

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 set 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 2018 and 31 December 2017.

Open exchange rate positions

in HRK thousands	2018	2017
Euro (EUR)	165,765	300,339
Bosnia and Herzegovina convertible mark (BAM)	173	129
Swiss franc (CHF)	(513)	(572)
Swedish krona (SEK)	884	301
Australian dollar (AUD)	1,045	326
Canadian dollar (CAD)	52	278
Norwegian krone (NOK)	353	998
US dollar (USD)	(6,563)	(8,176)

43.6) 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) and the Decision on Liquidity Risk Management 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 ratios

With the implementation of the CRR at the beginning of 2014, new liquidity ratios, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) have been introduced as ratios relevant for reporting purposes. For the LCR, the European Commission released a Delegated regulation (EU) 2015/61 of 10 October 2014, published in the Official Journal of the European Union on 17 January 2015, specifying details on the ratio and setting a binding minimum requirement for the ratio as of 1 October 2015. Since 30 September 2016 the LCR has to be reported according to the Delegated regulation to the authorities (LCR DA). 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 60% for 2015 (from 1 October), 70% for 2016, 80% for 2017 and 100% from 2018. The NSFR remains for the time being a reporting requirement only, but with a potential introduction of binding minimum requirement. 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. Both, LCR DA and NSFR have been implemented within the Bank.

Methods and instruments employed

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 and from 2015 internal targets are set for them. And from 1 January 2017, Liquidity Coverage Ratio (LCR) is monitored daily. At the end of 2018, both LCR and NSFR for the Bank were above 100%.

43.6) Liquidity risk (continued)

Additionally, the traditional liquidity gaps (depicting the going concern maturity mismatches) of the Bank are reported and monitored regularly. Funding concentration risk is continuously analysed in respect to counterparties. The Bank's fund transfer pricing (FTP) system has also proven to be an efficient tool for structural liquidity risk management.

Methods and instruments of liquidity risk mitigation

General standards of liquidity risk controlling and management (standards, limits and analysis) have been defined and are continuously reviewed and improved by the Bank.

The short-term liquidity risk is managed by limits resulting from the survival period model and by internal LCR targets. Limit breaches are reported to the Asset Liability Committee (ALCO). Another important instrument for managing the liquidity risk within the Bank is the FTP system. As the process of planning funding needs provides important data for liquidity management, a detailed overview of funding needs is prepared for the planning horizon.

The Comprehensive Contingency Plan ensures the necessary coordination of all parties involved in the liquidity management process in case of crisis and is reviewed on a regular basis.

Analysis of liquidity risk

Liquidity coverage ratio

The Bank uses the regulatory liquidity coverage ratio according to the 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 2018 and 31 December 2017:

		BANK
	2018	2017
Liquidity Coverage Ratio (LCR)	191%	185%

Structural liquidity

Starting from 2018 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 2018 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
	> 1 year	> 2 years	> 3 years
Structural liquidity ratio	1.03	1.01	1.04

43.6) 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, reverse repos and securities lending transactions. 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 2018 year end and 2017 year end are shown in the tables below:

Term structure of counterbalancing capacity 2018

in HRK million	< 1 week	1 week(1) month	1(3) months	3(6) months	6(12) months
Cash, excess reserve	2,574	(1,518)	-	-	-
Liquid assets	8,172	(966)	(1,661)	(171)	(1,291)
Counterbalancing capacity	**10,746**	**(2,484)**	**(1,661)**	**(171)**	**(1,291)**

Term structure of counterbalancing capacity 2017

in HRK million	< 1 week	1 week(1) month	1(3) months	3(6) months	6(12) months
Cash, excess reserve	2,491	(1,425)	-	-	-
Liquid assets	6,474	(127)	(181)	(685)	(1,191)
Counterbalancing capacity	**8,965**	**(1,552)**	**(181)**	**(685)**	**(1,191)**

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.

43.6) Liquidity risk (continued)

Contractual Undiscounted Cash Flows from Financial liabilities

Maturities of contractual undiscounted cash flows from financial liabilities as at 31 December 2018 and 31 December 2017 respectively, were as follows:

Undiscounted financial liabilities

2018						GROUP
in HRK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**58,798**	**59,528**	**30,856**	**14,903**	**10,626**	**3,143**
Deposits by banks	7,666	8,005	673	1,937	3,846	1,549
Customer deposits	49,197	49,360	30,178	12,966	4,903	1,313
Debt securities in issue	670	712	1	-	711	-
Subordinated liabilities	1,265	1,451	4	-	1,166	281
Derivative liabilities	**27**	**55**	**14**	**6**	**9**	**26**
Contingent liabilities	**9,024**	**9,024**	**9,024**	**-**	**-**	**-**
Financial guarantees	3,150	3,150	3,150	-	-	-
Irrevocable commitments	5,874	5,874	5,874	-	-	-
Total	**67,849**	**68,607**	**39,894**	**14,909**	**10,635**	**3,169**

2017						GROUP
in HRK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**56,632**	**57,519**	**25,007**	**18,179**	**12,285**	**2,048**
Deposits by banks	9,744	10,035	1,217	3,056	5,381	381
Customer deposits	45,231	45,519	23,786	15,123	5,243	1,367
Debt securities in issue	376	447	-	-	447	-
Subordinated liabilities	1,281	1,518	4	-	1,214	300
Derivative liabilities	**52**	**52**	**16**	**34**	**1**	**1**
Contingent liabilities	**8,450**	**8,450**	**8,450**	**-**	**-**	**-**
Financial guarantees	3,012	3,012	3,012	-	-	-
Irrevocable commitments	5,438	5,438	5,438	-	-	-
Total	**65,134**	**66,021**	**33,473**	**18,213**	**12,286**	**2,049**

43.6) Liquidity risk (continued)

2018						BANK
in HRK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**52,735**	**53,336**	**29,687**	**12,522**	**8,069**	**3,058**
Deposits by banks	3,817	4,037	571	263	1,654	1,549
Customer deposits	46,983	47,136	29,111	12,259	4,538	1,228
Debt securities in issue	670	712	1	-	711	-
Subordinated liabilities	1,265	1,451	4	-	1,166	281
Derivative liabilities	**27**	**55**	**14**	**6**	**9**	**26**
Contingent liabilities	**6,105**	**6,105**	**6,105**	**-**	**-**	**-**
Financial guarantees	2,749	2,749	2,749	-	-	-
Irrevocable commitments	3,356	3,356	3,356	-	-	-
Total	**58,867**	**59,496**	**35,806**	**12,528**	**8,078**	**3,084**

2017						BANK
in HRK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**49,235**	**49,985**	**23,368**	**14,529**	**10,350**	**1,738**
Deposits by banks	5,113	5,282	1,266	156	3,726	134
Customer deposits	42,465	42,738	22,098	14,373	4,963	1,304
Debt securities in issue	376	447	-	-	447	-
Subordinated liabilities	1,281	1,518	4	-	1,214	300
Derivative liabilities	**52**	**52**	**16**	**34**	**1**	**1**
Contingent liabilities	**6,048**	**6,048**	**6,048**	**-**	**-**	**-**
Financial guarantees	2,608	2,608	2,608	-	-	-
Irrevocable commitments	3,440	3,440	3,440	-	-	-
Total	**55,335**	**56,085**	**29,432**	**14,563**	**10,351**	**1,739**

43.7) 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 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 operational risk loss data from the world's leading data consortium, Operational Risk Exchange Association (ORX) through membership of Erste Group in the consortium.
For the qualitative analysis a methodology for risk and control self-assessments (RCSA) has to be performed. RCSA have to be carried out 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 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.
In addition to the loss data collection, scenario analysis are implemented to analyse possible future losses which the Bank has not experienced yet.

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 Quarterly Report on Operational Risk and Local Operational Conduct Committee is held at minimum on a quarterly basis.

Operational Risk Events

Operational risk events are categorized within seven event types according to the Credit Institutions Act;

Internal theft and fraud:
Losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity/discrimination events, which involves at least one internal party.

43.7) Operational risk (continued)

External theft and fraud:
Losses due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party.

Employment practices and workplace safety:
Losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity/discrimination events.

Clients, products and business practices:
Losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of a product.

Damage to physical assets:
Losses arising from loss or damage to physical assets from natural disaster or other events.

Business disruption and (IT) system failures:
Losses arising from disruption of business or system failures.

Execution, delivery and process management:
Losses from failed transaction processing or process management, from relations with trade counterparties and vendors.

Chart 15: Structure of Operational Risk Losses collected in 2017 and 2018

44. 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.

44. Fair value of assets and liabilities (continued)

According to the described methodology the cumulative CVA-adjustments amounts to HRK 1,074 thousands as at 31 December 2018 (2017: HRK 601 thousands) and the total DVA-adjustment amounts to HRK 200 thousands as at 31 December 2018 (2017: HRK 312 thousands).

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 the 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.

44. 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
	2017				2018			
in HRK million	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Financial assets HFT	195	52	-	247	-	278	-	278
Derivatives	-	52	-	52	-	33	-	33
Other financial assets HFT	195	-	-	195	-	245	-	245
Non-trading financial assets - FVPL	x	x	x	x	147	-	18	165
Equity instruments	x	x	x	x	-	-	11	11
Debt securities	x	x	x	x	147	-	7	154
Financial assets AFS	6,901	797	301	7,999	x	x	x	x
Financial assets - FVOCI	x	x	x	x	5,835	2,344	423	8,602
Equity instruments	x	x	x	x	-	-	111	111
Debt securities	x	x	x	x	5,835	2,344	312	8,491
Total assets	**7,096**	**849**	**301**	**8,246**	**5,982**	**2,622**	**441**	**9,045**
Liabilities								
Financial liabilities HFT	-	52	-	52	-	27	-	27
Derivatives	-	52	-	52	-	27	-	27
Total liabilities	**-**	**52**	**-**	**52**	**-**	**27**	**-**	**27**

								BANK
	2017				2018			
in HRK million	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Financial assets HFT	195	55	-	250	-	279	-	279
Derivatives	-	55	-	55	-	34	-	34
Other financial assets HFT	195	-	-	195	-	245	-	245
Non-trading financial assets - FVPL	x	x	X	x	7	-	16	23
Equity instruments	x	x	x	x	-	-	9	9
Debt securities	x	x	x	x	7	-	7	14
Financial assets AFS	6,471	797	181	7,449	x	x	x	x
Financial assets - FVOCI	x	x	x	x	5,331	2,344	302	7,977
Equity instruments	x	x	x	x	-	-	102	102
Debt securities	x	x	x	x	5,331	2,344	200	7,875
Total assets	**6,666**	**852**	**181**	**7,699**	**5,338**	**2,623**	**318**	**8,279**
Liabilities								
Financial liabilities HFT	-	52	-	52	-	27	-	27
Derivatives	-	52	-	52	-	27	-	27
Total liabilities	**-**	**52**	**-**	**52**	**-**	**27**	**-**	**27**

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

44. 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
		2017		2018
In HRK million	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Securities				
Net transfer from Level 1	-	-	-	1,728
Net transfer from Level 2	-	-	(1,728)	-
Net transfer from Level 3	-	46	-	-
Purchases/sales/expiries	(314)	731	(1,485)	(106)
Total year-to-date change	**(314)**	**777**	**(3,213)**	**1,622**

				BANK
		2017		2018
In HRK million	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Securities				
Net transfer from Level 1	-	-	-	1,728
Net transfer from Level 2	-	-	(1,728)	-
Net transfer from Level 3	-	(46)	-	-
Purchases/sales/expiries	(315)	731	(1,585)	(106)
Total year-to-date change	**(315)**	**685**	**(3,313)**	**1,622**

44. 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	Gain/(loss) in P&L	Gain/(loss) in OCI	Purchases	Sales	Transfers out of Level 3	Exchange-rate changes	As of
	Jan 2018							Dec 2018
Assets								
Non-trading financial assets - FVPL	15	3	-	-	-	-	-	18
Equity instruments	8	3	-	-	-	-	-	11
Debt securities	7	-	-	-	-	-	-	7
Financial assets - FVOCI	421	-	18	-	(14)	-	(2)	423
Equity instruments	103	-	22	-	(14)	-	-	111
Debt securities	318	-	(4)	-	-	-	(2)	312
Total assets	**436**	**3**	**18**	**-**	**(14)**	**-**	**(2)**	**441**
	Dec 2016							Dec 2017
Assets								
Financial assets - available for sale	374	-	(19)	11	(19)	(45)	(1)	301
Total assets	**374**	**-**	**(19)**	**11**	**(19)**	**(45)**	**(1)**	**301**

								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 2018							Dec 2018
Assets								
Non-trading financial assets - FVPL	13	3	-	-	-	-	-	16
Equity instruments	6	3	-	-	-	-	-	9
Debt securities	7	-	-	-	-	-	-	7
Financial assets - FVOCI	300	-	16	-	(14)	-	-	302
Equity instruments	96	-	20	-	(14)	-	-	102
Debt securities	204	-	(4)	-	-	-	-	200
Total assets	**313**	**3**	**16**	**-**	**(14)**	**-**	**-**	**318**
	Dec 2016							Dec 2017
Assets								
Financial assets - available for sale	254	-	(20)	11	(19)	(45)	-	181
Total assets	**254**	**-**	**(20)**	**11**	**(19)**	**(45)**	**-**	**181**

As of 31 December 2018 and 2017, the fair valuation of VISA Inc preferred shares was based on reasonable assumptions and estimations and was consequently classified in Level 3. The shares cannot be sold before a minimum holding period of 12 years and are limited to certain conditions which may restrict the conversion of preferred shares into tradeable VISA Inc shares. Due to these limiting conditions the fair value of the preferred shares was capped based on assumptions compared to free tradeable VISA Inc. class A common shares.

44. Fair value of assets and liabilities (continued)

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 2018					**GROUP**
Financial assets at fair value through other comprehensive income	Bonds and commercial papers	309	Discounted cash flow	Credit spread	2.22% - 5.33% (4.24%)
31 December 2017					
Financial assets - available for sale	Bonds and commercial papers	202	Discounted cash flow	Credit spread	4.90%-6.09% (5.1%)
31 December 2018					**BANK**
Financial assets at fair value through other comprehensive income	Bonds and commercial papers	197	Discounted cash flow	Credit spread	2.22% - 5.33% (4.29%)
31 December 2017					
Financial assets - available for sale	Bonds and commercial papers	89	Discounted cash flow	Credit spread	4.90%-6.09% (5.1%)

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 2.86 million and for negative HRK 3.82 million.

44. 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 2018 and 2017.

					GROUP
2018	**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	4,954	4,954	-	-	4,954
Financial assets at AC	49,678	48,227	-	-	48,227
Loans and advances to banks	5,228	5,103	-	-	5,103
Loans and advances to customers	43,177	41,829	-	-	41,829
Debt securities	1,273	1,295	-	-	1,295
Finance lease receivables	2,080	2,015	-	-	2,015
Trade and other receivables	1,425	1,381	-	-	1,381
LIABILITIES					
Financial liabilities measured at amortised costs	59,687	59,495	-	-	59,495
Deposits from banks	8,931	8,748	-	-	8,748
Deposits from customers	49,197	49,186	-	-	49,186
Debt securities issued	670	672	-	-	672
Other financial liabilities	889	889	-	-	889
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	3,150	3,245	-	-	3,245
Irrevocable commitments	5,874	5,922	-	-	5,922

					GROUP
2017	**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	4,639	4,639	-	-	-
Financial assets - held to maturity	1,878	1,929	1,642	170	117
Loans to and receivables from credit institutions	5,233	5,235	-	-	5,235
Loans to and receivables from customers	43,297	42,546	-	-	42,546
LIABILITIES					
Financial liabilities measured at amortised costs	56,632	57,065	-	376	56,689
Deposits from banks	11,025	11,401	-	-	11,401
Deposits from customers	44,374	44,340	-	-	44,340
Debt securities issued	376	376	-	376	-
Other financial liabilities	857	858	-	-	858
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	3,012	3,030	-	-	3,030
Irrevocable commitments	5,438	5,506	-	-	5,506

44. Fair value of assets and liabilities (continued)

Financial instruments not measured at fair value (continued)

2018	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	BANK Marked to model based on non-observable inputs Level 3
in HRK million					
ASSETS					
Cash and cash balances	4,383	4,383	-	-	4,383
Financial assets at AC	46,115	44,767	-	-	44,767
Loans and advances to banks	5,309	5,183	-	-	5,183
Loans and advances to customers	39,786	38,543	-	-	38,543
Debt securities	1,020	1,041	-	-	1,041
Trade and other receivables	309	299	-	-	299
LIABILITIES					
Financial liabilities measured at amortised costs	52,937	52,824	-	-	52,824
Deposits from banks	5,082	4,978	-	-	4,978
Deposits from customers	46,983	46,972	-	-	46,972
Debt securities issued	670	672	-	-	672
Other financial liabilities	202	202	-	-	202
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	2,749	2,832	-	-	2,832
Irrevocable commitments	3,356	3,384	-	-	3,384

2017	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	BANK Marked to model based on non-observable inputs Level 3
in HRK million					
ASSETS					
Cash and cash balances	4,170	4,170	-	-	-
Financial assets - held to maturity	1,391	1,441	1,155	170	116
Loans to and receivables from credit institutions	5,132	5,135	-	-	5,135
Loans to and receivables from customers	36,512	35,878	-	-	35,878
LIABILITIES					
Financial liabilities measured at amortised costs	49,235	49,507	-	376	49,131
Deposits from banks	6,394	6,613	-	-	6,613
Deposits from customers	42,307	42,360	-	-	42,360
Debt securities issued	376	376	-	376	-
Other financial liabilities	158	158	-	-	158
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	2,608	2,624	-	-	2,624
Irrevocable commitments	3,440	3,483	-	-	3,483

44. 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 amortized 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 2018 and 2017:

					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					
2018					
Investment property	49	63	-	-	63
2017					
Investment property	53	64	-	-	64

					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					
2018					
Investment property	17	24	-	-	24
2017					
Investment property	20	23	-	-	23

44. Fair value of assets and liabilities (continued)

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.

45. Financial instruments per category according to IAS 39

GROUP

in HRK million	As at 31 December 2017								
	Category of financial instruments								
	Loans and receivables	Held to maturity	Held for trading	Desig-nated at fair value	Available for sale	Financial liabilities at amortised cost	Other financial assets	Finance lease accor-ding to IAS 17	Total
ASSETS									
Cash and cash balances	3,147	-	-	-	-	-	1,492	-	4,639
Loans to and receivables from institutions	5,233	-	-	-	-	-	-	-	5,233
Loans to and receivables from customers	41,549	-	-	-	-	-	-	1,748	43,297
Financial assets - held for trading	-	-	247	-	-	-	-	-	247
Financial assets - available for sale	-	-	-	-	8,018	-	-	-	8,018
Financial assets - held to maturity	-	1,878	-	-	-	-	-	-	1,878
Total financial assets	**49,929**	**1,878**	**247**	**-**	**8,018**	**-**	**1,492**	**1,748**	**63,312**
Net gains / losses recognized through profit or loss[1]	(861)	-	46	-	-	-	-	-	(815)
Net gains / losses recognized through OCI	-	-	-	-	(20)	-	-	-	(20)
LIABILITIES									
Financial liabilities - held for trading	-	-	(52)	-	-	-	-	-	(52)
Financial liabilities measured at amortized cost	-	-	-	-	-	(56,632)	-	-	(56,632)
Total financial liabilities	**-**	**-**	**(52)**	**-**	**-**	**(56,632)**			**(56,684)**

[1]Including impairments

BANK

in HRK million	As at 31 December 2017								
	Category of financial instruments								
	Loans and receivables	Held to maturity	Trading	Designa-ted at fair value	Available for sale	Financial lia-bilities at amortised cost	Other financial assets	Finance lease according to IAS 17	Total
ASSETS									
Cash and cash balances	2,804	-	-	-	-	-	1,366	-	4,170
Loans to and receivables from credit institutions	5,132	-	-	-	-	-	-	-	5,132
Loans to and receivables from customers	36,512	-	-	-	-	-	-	-	36,512
Financial assets - held for trading	-	-	250	-	-	-	-	-	250
Financial assets - available for sale	-	-	-	-	7,468	-	-	-	7,468
Financial assets - held to maturity	-	1,391	-	-	-	-	-	-	1,391
Total financial assets	**44,448**	**1,391**	**250**	**-**	**7,468**	**-**	**1,366**	**-**	**54,923**
Net gains / losses recognized through profit or loss[1]	(436)	-	45	-	(1)	-	-	-	(392)
Net gains / losses recognized through OCI	-	-	-	-	(21)	-	-	-	(21)
LIABILITIES									
Financial liabilities - held for trading	-	-	(52)	-	-	-	-	-	(52)
Financial liabilities measured at amortized cost	-	-	-	-	-	(49,235)	-	-	(49,235)
Total financial liabilities	**-**	**-**	**(52)**	**-**	**-**	**(49,235)**	**-**	**-**	**(49,287)**

[1] Including impairments

46. Audit fees and tax consultancy fees

The following table contains fundamental audit fees and tax fees charged by the auditors in the financial years 2018 and 2017:

	GROUP		BANK	
in HRK million	2017	2018	2017	2018
Audit fees	5	4	3	2
Total	**5**	**4**	**3**	**2**

47. 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 43.4 Credit risk).

48. 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 2018 and 31 December 2017.

				GROUP
in HRK million		2017		2018
	< 1 year	> 1 year	< 1 year	> 1 year
Cash and cash balances	4,639	-	4,954	-
Financial assets HfT	46	201	266	12
Derivatives	46	6	21	12
Other financial assets held for trading	-	195	245	-
Non-trading financial assets at FVPL	x	x	-	165
Equity instruments	x	x	-	11
Debt securities	x	x	-	154
Financial assets – available for sale	2,772	5,246	x	x
Financial assets at FVOCI	x	x	3,565	5,037
Equity instruments	x	x	106	5
Debt securities	x	x	3,459	5,032
Loans and receivables	19,261	29,269	x	x
Financial assets – held to maturity	470	1,408	x	x
Financial assets at AC	x	x	17,336	32,342
Debt securities	x	x	177	1,096
Loans and advances to banks	x	x	5,136	92
Loans and advances to customers	x	x	12,023	31,154
Finance lease receivables	x	x	742	1,338
Trade and other receivables	x	x	1,409	16
Property, plant and equipment	-	1,262	-	1,245
Investment properties	-	53	-	49
Intangible assets	-	393	-	372
Investments in associates	-	60	-	60
Current tax assets	17	-	10	-
Deferred tax assets	-	234	-	219
Other assets	110	484	122	432
TOTAL ASSETS	**27,315**	**38,610**	**28,404**	**41,287**
Financial liabilities HfT	50	2	18	9
Derivatives	50	2	18	9
Financial liabilities measured at amortised cost	42,354	14,278	46,537	13,150
Deposits from banks	4,203	6,822	2,590	6,341
Deposits from customers	37,353	7,020	43,091	6,106
Debt securities issued	-	376	-	670
Other financial liabilities	798	60	856	33
Provisions	210	57	136	69
Tax liabilities	139	2	106	2
Other liabilities	627	-	555	48
TOTAL LIABILITIES	**43,380**	**14,339**	**47,352**	**13,278**

48. Analysis of remaining maturities (continued)

				BANK
in HRK million		2017		2018
	< 1 year	> 1 year	< 1 year	> 1 year
Cash and cash balances	4,170	-	4,383	-
Financial assets HfT	48	202	266	13
Derivatives	48	7	21	13
Other financial assets held for trading	-	195	245	-
Non-trading financial assets at FVPL	x	x	-	23
Equity instruments	x	x	-	9
Debt securities	x	x	-	14
Financial assets – available for sale	2,778	4,690	x	x
Financial assets at FVOCI	x	x	3,479	4,498
Equity instruments	x	x	28	74
Debt securities	x	x	3,451	4,424
Loans and receivables	15,592	26,052	x	x
Financial assets – held to maturity	470	921	x	x
Financial assets at AC	x	x	15,902	30,213
Debt securities	x	x	100	920
Loans and advances to banks	x	x	5,309	-
Loans and advances to customers	x	x	10,493	29,293
Trade and other receivables	x	x	309	-
Property, plant and equipment	-	583	-	669
Investment properties	-	20	-	17
Intangible assets	-	111	-	120
Investments in subsidiaries	-	951	-	989
Investments in associates	-	38	-	38
Current tax assets	-	88	-	-
Deferred tax assets	-	-	-	87
Other assets	40	452	19	409
TOTAL ASSETS	**23,098**	**34,108**	**24,358**	**37,076**
Financial liabilities HfT	49	3	18	9
Derivatives	49	3	18	9
Financial liabilities measured at amortised cost	37,795	11,440	42,352	10,585
Deposits from banks	1,423	4,972	834	4,248
Deposits from customers	36,214	6,093	41,316	5,667
Debt securities issued	-	375	-	670
Other financial liabilities	158	-	202	-
Provisions	169	43	107	59
Tax liabilities	132	-	81	-
Other liabilities	433	-	365	48
TOTAL LIABILITIES	**38,578**	**11,486**	**42,923**	**10,701**

49. Country-by-country reporting

Country	Operating income	Pre-tax result from continuing operations	Income tax	Employees
2018				**GROUP**
Croatia	2,889	1,182	(244)	2,802
Montenegro	196	76	(8)	260
Macedonia	19	17	-	43
Slovenia	57	10	(2)	63
Total	**3,161**	**1,285**	**(254)**	**3,168**

Country	Operating income	Pre-tax result from continuing operations	Income tax	Employees
2017				**GROUP**
Croatia	2,899	584	(175)	2,838
Montenegro	178	68	(7)	259
Macedonia	17	(18)	-	44
Slovenia	49	6	(1)	60
Total	**3,143**	**640**	**(183)**	**3,201**

50. Own funds and capital requirements

Regulatory Scope of Consolidation

In the following pages the Group fulfills the disclosure requirements according to CRR, in detail Articles 436 (b) – (e) CRR and Articles 437 (1) (a), (d), (e) and (f) 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.

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 B Significant accounting policies especially under section b) Basis 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.

50. Own funds and capital requirements (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.

50. 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	2017	2018
Non-significant investments in financial sector entities		
Threshold (10% of CET1)	745	814
Holdings in CET1	(5)	(8)
Distance to threshold	**740**	**806**
Significant investments in financial sector entities		
Threshold (10% of CET1)	745	814
Holdings in CET1	(46)	(46)
Distance to threshold	**699**	**768**
Deferred tax assets		
Threshold (10% of CET1)	745	814
Deferred tax assets dependent on future profitability and arises from temporary differences	(234)	(219)
Distance to threshold	**511**	**595**
Combined threshold for deferred tax assets and significant investments		
Threshold (17.65% of CET1)*	1,118	1,437
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	(280)	(265)
Distance to threshold	**838**	**1,172**

*In transition period (from 1 January 2014 until 31 December 2017) threshold percentage is 15% in accordance with article 470 CRR.

50. Own funds and capital requirements (continued)

Presentation of the scope of consolidation

Entities within the different scopes of consolidation

2018	IFRS Full	IFRS Equity	CRR Full	CRR Proportional	CRR De Minimis
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
S Immorent Zeta 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	-	-	-

2017	IFRS Full	IFRS Equity	CRR Full	CRR Proportional	CRR De Minimis
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
S Immorent Zeta 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	-	-	-

50. Own funds and capital requirements (continued)

Changes within the fully consolidated entities within the regulatory scope of consolidation

During 2017 company Erste Card Club d.o.o. acquired company Diners Club International Mak d.o.o.o.e.l. Skopje that is included in consolidation scope for regulatory and IFRS purposes.

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 B 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 were 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 Other Systemic Important Institution (O-SII) buffer in the amount of 3% in accordance with articles 137, 138 and 139 of ZOKI.

50. Own funds and capital requirements (continued)

Capital structure according to the EU directive 575/2013 (CRR)

in HRK million	Article pursuant to CRR	GROUP 2017	GROUP 2018	BANK 2017	BANK 2018
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)	4,017	4,698	3,128	3,731
Accumulated other comprehensive income	4 (100), 26 (1) (d)	243	222	214	205
Other reserves		86	86	86	86
Prudential filter: cumulative gains and losses due to changes in own credit risk on fair valued liabilities	33 (1) (b)	(1)	(1)	(1)	(1)
Value adjustments due to the requirements for prudent valuation	34, 105	(14)	(15)	(13)	(14)
Regulatory adjustments relating to unrealised gains and losses	467, 468	(311)	-	(267)	-
Goodwill	4 (113), 36 (1) (b), 37	(216)	(172)	-	-
Other intangible assets	4 (115), 36 (1) (b), 37 (a)	(164)	(176)	(110)	(120)
Deferred tax assets dependent upon future profitability and not temporary differences net of associated tax liabilities	36 (1) (c), 38	-	-	-	-
Common equity tier 1 capital (CET1)	**50**	**7,139**	**8,141**	**6,536**	**7,386**
Tier 2 capital (T2)					
Capital instruments and subordinated loans eligible as T2 capital	62 (a), 63 to 65, 66 (a), 67	1,064	843	1,064	843
Own T2 instruments	63 (b) (i), 66 (a), 67	1,064	843	1,064	843
IRB excess of provisions over expected losses eligible	62 (d)	159	171	170	183
Tier 2 capital (T2)	**71**	**1,223**	**1,014**	**1,234**	**1,026**
Total own funds – phased-in		**8,362**	**-**	**7,770**	**-**
Capital requirement– phased-in	92 (3), 95, 96, 98	3,449	-	2,780	-
CET1 capital ratio– phased-in	92 (2) (a)	16.56	-	18.81	-
Tier 1 capital ratio– phased-in	92 (2) (b)	16.56	-	18.81	-
Total capital ratio– phased-in	92 (2) (c)	19.40	-	22.36	-
Total own funds - final		**8,674**	**9,155**	**8,037**	**8,412**
Capital requirement – final	92 (3), 95, 96, 98	3,449	3,541	2,780	2,963
CET1 capital ratio – final	92 (2) (a)	17.28	18.39	19.58	19.94
Tier 1 capital ratio – final	92 (2) (b)	17.28	18.39	19.58	19.94
Total capital ratio – final	92 (2) (c)	20.12	20.68	23.13	22.71

The difference in the amount of the own funds between phased-in and final period in 2017 refer to unrealised gains from financial assets that are not eligible in transitional period according to national discretions.

50. Own funds and capital requirements (continued)

Risk structure according to EU directive 575/2013 (CRR)

GROUP		2017		2018	
in HRK million	Article pursuant to CRR	Calculation base/total risk	Capital requirement	Calculation base/total risk (final)	Capital requirement (final)
Total risk exposure amount	92 (3), 95, 96, 98	43,108	3,449	44,264	3,541
Risk-weighted assets (credit risk)	92 (3) (a) (f)	36,989	2,959	38,640	3,091
Standardised approach		10,560	845	10,177	814
IRB approach		26,429	2,114	28,463	2,277
Settlement risk	92 (3) (c) (ii), 92 (4) (b)	-	-	-	-
Trading book, foreign FX risk and commodity risk	92 (3) (b) (i) and (iii), 92 (4) (b)	354	29	57	4
Operational risk	92 (3) (e) 92 (4) (b)	5,739	459	5,548	444
Exposure for CVA	92 (3) (d)	26	2	19	2

BANK		2017		2018	
in HRK million	Article pursuant to CRR	Calculation base/total risk	Capital requirement	Calculation base/total risk (phased-in)	Capital requirement (phased-in)
Total risk exposure amount	92 (3), 95, 96, 98	34,750	2,780	37,038	2,963
Risk-weighted assets (credit risk)	92 (3) (a) (f)	30,366	2,429	32,752	2,620
Standardised approach		2,027	162	2,215	177
IRB approach		28,339	2,267	30,537	2,443
Trading book, foreign FX risk and commodity risk	92 (3) (b) (i) and (iii), 92 (4) (b)	351	28	139	11
Operational risk	92 (3) (e) 92 (4) (b)	3,976	318	4,034	323
Exposure for CVA	92 (3) (d)	57	5	113	9

The capital structure table above shows only those positions which are relevant for the Group and the Bank. Basel III final figures (fully loaded) are calculated based on the current requirements according to the CRR. Changes are possible due to final Regulatory Technical Standards (RTS) that are not available yet.

50. 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

			2018
in HRK million	IFRS	Effects - scope of consolidation	CRR
Assets			
Cash and cash balances	4,954	-	4,954
Financial assets - held for trading	278	-	278
Derivatives	33	-	33
Other trading assets	245	-	245
Non-trading financial assets at fair value through profit or loss	165	(2)	163
Financial assets at fair value through other comprehensive income	8,602	-	8,602
Financial assets at amortised cost	49,678	34	49,712
Loans to and receivables from credit institutions	5,228	-	5,228
Loans to and receivables from customers	43,177	34	43,211
Debt securities	1,273	-	1,273
Finance lease receivables	2,080	-	2,080
Property and equipment	1,245	(28)	1,217
Investment properties	49	(29)	20
Intangible assets	372	(24)	348
Investments in associates	60	21	81
Current tax assets	10	-	10
Deferred tax assets	219	-	219
Trade and other receivables	1,425	-	1,425
Other assets	554	(6)	548
Total assets	**69,691**	**(34)**	**69,657**
Liabilities and equity			
Financial liabilities - held for trading	27	-	27
Derivatives	27	-	27
Financial liabilities measured at amortised costs	59,687	8	59,695
Deposits from banks	8,931	-	8,931
Deposits from customers	49,197	10	49,207
Debt securities issued	670	-	670
Other financial liabilities	889	(2)	887
Provisions	205	-	205
Current tax liabilities	106	-	106
Deferred tax liabilities	2	-	2
Other liabilities	603	(6)	597
Total liabilities	**60,630**	**2**	**60,632**
Total equity	**9,061**	**(36)**	**9,025**
Equity - attributable to non-controlling interests	170	-	170
Equity - attributable to owners of the parent	8,891	(36)	8,855
Total liabilities and equity	**69,691**	**(34)**	**69,657**

50. 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

			2017
in HRK million	IFRS	Effects - scope of consolidation	CRR
Assets			
Cash and cash balances	4,639	-	4,639
Financial assets - held for trading	247	-	247
Derivatives	52	-	52
Other trading assets	195	-	195
Financial assets - available for sale	8,018	-	8,018
Financial assets - held to maturity	1,878	-	1,878
Loans to and receivables from credit institutions	5,233	(1)	5,232
Loans to and receivables from customers	43,297	41	43,338
Property and equipment	1,262	(41)	1,221
Investment properties	53	(29)	24
Intangible assets	393	(13)	380
Investments in associates and joint ventures	60	23	83
Current tax assets	17	-	17
Deferred tax assets	234	-	234
Other assets	594	(9)	585
Total assets	**65,925**	**(29)**	**65,896**
Liabilities and equity			
Financial liabilities - held for trading	52	-	52
Derivatives	52	-	52
Financial liabilities measured at amortised costs	56,632	7	56,639
Deposits from banks	11,025	-	11,025
Deposits from customers	44,374	10	44,384
Debt securities issued	376	-	376
Other financial liabilities	857	(3)	854
Provisions	267	-	267
Current tax liabilities	139	-	139
Deferred tax liabilities	2	-	2
Other liabilities	627	(5)	622
Total liabilities	**57,719**	**2**	**57,721**
Total equity	**8,206**	**(31)**	**8,175**
Equity - attributable to non-controlling interests	156	-	156
Equity - attributable to owners of the parent	8,050	(31)	8,019
Total liabilities and equity	**65,925**	**(29)**	**65,896**

50. 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 2018 difference on position Investments in associates in amount of HRK 21 million (2017: 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

						2018
in HRK million	IFRS	effects - scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table - reference
Subscribed capital	1,698	-	1,698	-	1,698	a
Capital reserves	1,887	(86)	1,801	-	1,801	b
Capital instruments and the related share premium accounts	-	86	86	-	86	c
Retained earnings	4,075	(30)	4,045	-	4,045	d
Gain for the year	1,008	(5)	1,003	(350)	653	e
Other comprehensive income (OCI)	223	(1)	222	-	222	
Fair value reserve	281	(1)	280	-	280	
Currency translation	(9)	-	(9)	-	(9)	
Deferred tax	(50)	-	(50)	-	(50)	
Other	1	-	1	-	1	
Equity attributable to owners of the parent	8,891	(36)	8,855	(350)	8,505	
Equity attributable to non-controlling interests	170	-	170	(170)	-	
Total equity	**9,061**	**(36)**	**9,025**	**(520)**	**8,505**	

50. Own funds and capital requirements (continued)

Regulatory adjustments in amount of HRK 350 million HRK refer to distributable dividend that is deducted from the profit for the year 2018 (2017: HRK 174 million).
Further details regarding the development of IFRS equity are disclosed within Part III Statement of Changes in Equity.

						2017
in HRK million	**IFRS**	**effects - scope of consolidation**	**CRR**	**Regulatory adjustments**	**Own funds**	**Own funds disclosure table - reference**
Subscribed capital	1,698	-	1,698	-	1,698	a
Capital reserves	1,801	-	1,801	-	1,801	b
Capital instruments and the related share premium accounts	86	-	86	-	86	c
Retained earnings	3,687	(26)	3,661	-	3,661	d
Loss for the year	534	(4)	530	(174)	356	e
Other comprehensive income (OCI)	244	(1)	243	-	243	c
Available for sale reserve	303	(1)	302	-	302	
unrealized gains according to Art. 35 CRR	312	(1)	311	-	311	f
unrealized losses according to Art. 35 CRR	(9)	-	(9)	-	(9)	
Currency translation	(3)	-	(3)	-	(3)	
Deferred tax	(54)	-	(54)	-	(54)	
Other	(2)	-	(2)	-	(2)	
Equity attributable to owners of the parent	8,050	(31)	8,019	(174)	7,845	
Equity attributable to non-controlling interests	156	-	156	(156)	-	
Total equity	**8,206**	**(31)**	**8,175**	**(330)**	**7,845**	

Intangible assets

						2018
in HRK million	**IFRS**	**effects - scope of consolidation**	**CRR**	**Regulatory adjustments**	**Own funds**	**Own funds disclosure table - reference**
Intangible assets	**372**	**(24)**	**348**	**-**	**348**	
deductible from CET 1	372	(24)	348	-	348	g

						2017
in HRK million	**IFRS**	**effects - scope of consolidation**	**CRR**	**Regulatory adjustments**	**Own funds**	**Own funds disclosure table - reference**
Intangible assets	**393**	**(13)**	**380**	**-**	**380**	
100% deductible from CET 1 acc. to transitional provisions	393	(13)	380	-	380	g

Details regarding the development of intangible assets are disclosed under Note 21 Intangible assets.

50. Own funds and capital requirements (continued)

Deferred Taxes

in HRK million	IFRS	effects - scope of consolidation	Own Funds	Own funds disclosure table - reference
				2018
Deferred tax assets	**219**	**-**	**219**	
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-	-	-	h
Deferred tax assets that rely on future profitability and arise from temporary differences	219	-	219	

in HRK million	IFRS	effects - scope of consolidation	Own Funds	Own funds disclosure table - reference
				2017
Deferred tax assets	**234**	**-**	**234**	
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-	-	-	h
Deferred tax assets that rely on future profitability and arise from temporary differences	234	-	234	

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 2018 and 2017. 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 22 Tax assets and liabilities.

Subordinated liabilities

in HRK million	IFRS	effects - scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table - reference
						2018
Tier 2 capital instruments	**1,261**	**-**	**1,261**	**(418)**	**843**	**i**
Subordinated loan	1,261	-	1,261	(418)	843	

in HRK million	IFRS	effects - scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table – reference
						2017
Tier 2 capital instruments	**1,277**	**-**	**1,277**	**(213)**	**1,064**	**i**
Subordinated loan	1,277	-	1,277	(213)	1,064	

Details regarding subordinated liabilities are disclosed under Note 24 Financial liabilities measured at amortised costs.

50. 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.

For 2017 year composition of the regulatory capital is represented during the transitional period based on the Implementing Technical Standards on the disclosure of own funds published in the Official Journal of the EU. In column (A) is disclosed current amount, which considers all the transitional requirements, is disclosed. Column (C) discloses the residual amount, implying full CRR implementation. Column (D) provides reference on comparable figures related to IFRS equity, intangible assets, deferred tax assets and subordinated liabilities.

The transitional provisions which are applied by the Group are based on the CNB's decision on implementing standard of CRR.

50. Own funds and capital requirements (continued)

	in HRK million	(A) 31 December 2018	(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	4,045	26(1)(c)	d
3	Accumulated other comprehensive income (and other reserves)	222	26(1)	f
3a	Funds for general banking risks	86	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	653	26(2)	e
6	**Common Equity Tier 1 (CET1) capital before regulative adjustments**	**8,505**	Sum of rows 1 to 5a.	
Common Equity Tier 1 (CET1) capital:regulatory adjustments				
7	Additional value adjustments (negative value)	(15)	34, 105	
8	Intangible assets (net of related tax liabilities) (negative amount)	(348)	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)	-	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	(1)	33(1)(b)	
15	Defined-benefit pension fund assets (negative amount)	-	36(1)(e), 41	
16	Direct and indirect holdings by an institutionof 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)	

The table continues on the following page.

50. Own funds and capital requirements (continued)

	in HRK million	(A) 31 December 2018	(B) Regulation (EU) No 575/2013 article reference	(C) Reference to the tables
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)**	**(364)**	Sum of rows 7 to 20a, 21, 22 and 25a to 27	
29	**Common Equity Tier 1 (CET1) capital**	**8,141**	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: clasified as equity under applicable accounting standards	-		
32	of which: clasified as liabilities under applicable accounting standards	-		
33	Amount of qualified items reffered 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 entitis (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 entitis (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)**	**8,141**	Sum of rows 29 and 44	
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	843	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	171	62(c) and (d)	
51	**Tier 2 (T2) capital before regulative adjustments**	**1,014**		
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 artificialy the own funds of the institution (negative amount)	-	66(b), 68	

The table continues on the following page.

50. Own funds and capital requirements (continued)

	in HRK million	(A) 31 December 2018	(B) Regulation (EU) No 575/2013 article reference	(C) Reference to the tables
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**	**1,014**	Row 51 minus row 57	
59	**Total capital = (TC=T1+T2)**	**9,155**	Sum of rows 45 and 58	
60	**Total risk weighted assets**	**44,264**		
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of the risk exposure amount)	**18.39%**	92(2)(a)	
62	Tier 1 (as a percentage of the risk exposure amount)	**18.39%**	92(2)(b)	
63	Total capital (as a percentage of the total risk exposure amount)	**20.68%**	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)	**10.00%**	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)	**7.39%**	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)	46	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)	171	62	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	28,463	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)	

50. Own funds and capital requirements (continued)

in HRK million	(A) 2017	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to Preregulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013	(D) Reference to reconciliation tables
Common equity tier 1 (CET1) capital: instruments and reserves				
1 Capital instruments and the related share premium accounts	3,499	26 (1), 27, 28, 29, 26 (3)		
1a Ordinary shares	1,698	26 (3)		a
1b Share premium	1,801	26 (3)		b
2 Retained earnings	3,661	26 (1) (c)		d
3 Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	329	26 (1)		c
3a Fund for general banking risk	-	26 (1) (f)		
4 Amount of qualifying items referred to in article 484 (3) and the related share premium accounts subject to phase out from CET1	-	486 (2)		
Public sector capital injections grandfathered until 1 January 2018	-	483 (2)		
5 Minority Interests (amount allowed in consolidated CET1)	-	84, 479, 480		
5a Independently reviewed interim profits net of any foreseeable charge or dividend	356	26 (2)		e
6 CET1 capital before regulatory adjustments	**7,845**			
Common Equity Tier 1 (CET 1) capital: regulatory adjustments				
7 Additional value adjustments (negative amount)	(14)	34, 105		
8 Intangible assets (net of related tax liability) (negative amount)	(380)	36 (1) (b), 37, 472 (4)		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)	-	36 (1) (c), 38, 472 (5)		h
11 Fair value reserves related to gains or losses on cash flow hedges	-	33 (a)		
12 Negative amounts resulting from the calculation of expected loss amounts	-	36 (1) (d), 40, 159, 472 (6)		
13 Any increase in equity that results from securitised assets (negative amount)	-	32 (1)		
14 Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	(1)	33 (b)		
15 Defined benefit pension fund assets (negative amount)	-	36 (1) (e), 41, 472 (7)		
16 Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	36 (1) (f), 42, 472 (8)		
17 Holdings of the CET1 instruments 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)	-	36 (1) (g), 44, 472 (9)		
18 Direct and indirect holdings 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% threshold and net of eligible short positions) (negative amount)	-	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)		
19 Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)		
20 Empty set in the EU	-			
20a Exposure amount of the following items which qualify for a 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) (i), 89 to 91		
20c of which: securitisation positions (negative amount)	-	36 (1) (k) (ii) 243 (1) (b) 244 (1) (b) 258		
20d of which: free deliveries (negative amount)	-	36 (1) (k) (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), 470, 472 (5)		

The table is continued on the next page

50. Own funds and capital requirements (continued)

in HRK million	(A) 2017	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to Preregulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013	(D) Reference to reconciliation tables
22 Amount exceeding the 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), 470, 472 (11)		
24 Empty set in the EU	-			
25 of which: deferred tax assets arising from temporary differences	-	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)		
25a Losses for the current financial year (negative amount)	-	36 (1) (a), 472 (3)		
25b Foreseeable tax charges relating to CET1 items (negative amount)	-	36 (1) (l)		
26 Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	-			
26a Regulatory adjustments relating to unrealised gains and losses pursuant to articles 467 and 468	-			
of which: unrealised losses	-	467		
of which: unrealised gains	(311)	468		f
26b Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	-	481		
27 Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	36 (1) (j)		
28 Total regulatory adjustments to Common equity Tier 1 (CET1)	**(706)**			
29 Common equity Tier 1 (CET1) capital	**7,139**			
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	-			
33 Amount of qualifying items referred to in article 484 (4) and the related share premium accounts subject to phase out from AT1	-	486 (3)		
Public sector capital injections grandfathered until 1 January 2018	-	483 (3)		
34 Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	-	85, 86, 480		
35 of which: instruments issued by subsidiaries subject to phase out	-	486 (3)		
36 Additional Tier 1 (AT1) capital before regulatory adjustments	**-**			
Additional Tier 1 (AT1) capital: regulatory adjustments				
37 Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	52 (1) (b), 56 (a), 57, 475 (2)		
38 Holdings of the AT1 instruments 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)	-	56 (b), 58, 475 (3)		
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, 475 (4)		
40 Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (d), 59, 79, 475 (4)		

The table is continued on the next page.

50. Own funds and capital requirements (continued)

in HRK million	(A) 2017	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to Preregulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013	(D) Reference to reconciliation tables
41 Regulatory adjustments applied to AT1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (ie. CRR residual amounts)	-			
41a Residual amounts deducted from AT1 capital with regard to deduction from CET1 during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-	472, 472(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)		
Interim loss	-			
Shortfall of provisions to expected loss	-			
41b Residual amounts deducted from AT1 with regard to deduction from T2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	477, 477 (3), 477 (4) (a)		
reciprocal cross holdings in T2 instruments	-			
direct holdings of non-significant investments in the capital of other financial sector entities	-			
41c Amount to be deducted from or added to AT1 with regard to additional filters and deductions required pre- CRR	-	467, 468, 481		
possible filter to unrealised losses	-	467		
possible filter to unrealised gains	-	468		
42 Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	56 (e)		
43 Total regulatory adjustments to Additional tier 1 (AT1) capital	**-**			
44 Additional Tier 1 (AT1) capital	**-**			
45 Tier 1 capital (T1 = CET1 + AT1)	**7,139**			
Tier 2 (T2) capital: Instruments and provisions	-			
46 Capital instruments and the related share premium accounts	1,064	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)		
Public sector capital injections grandfathered until 1 January 2018	-	483 (4)		
48 Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	87, 88, 480		
49 of which: instruments issued by subsidiaries subject to phase-out	-	486 (4)		
50 Credit risk adjustments	159	62 (c) (d)		
51 Tier 2 (T2) capital before regulatory adjustment	**1,223**			
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, 477 (2)		
53 Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)	-	66 (b), 68, 477 (3)		
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, 477 (4)		
54a of which: new holdings not subject to transitional arrangements	-			
54b of which: holdings existing before 1 January 2013 and subject to transitional arrangements	-			
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 amounts)	-	66 (d), 69, 79, 477 (4)		
56 Regulatory adjustments applied to T2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-			

The table is continued on the next page

50. Own funds and capital requirements (continued)

in HRK million	(A) 2017	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to Preregulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013	(D) Reference to reconciliation tables
56a Residual amounts deducted from T2 with regard to deduction from CET1 during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-	472, 472(3)(a), 472 (4), 472 (6), 472 (8), 472 (9), 472 (10) (a), 472 (11) (a)		
Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc.	-			
56b Residual amounts deducted from T2 with regard to deduction from AT1 during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	475, 475 (2) (a), 475 (3), 475 (4) (a)		
of which: reciprocal cross holdings in T1 instruments	-			
of which: direct holdings of non-significant investments in the capital of other financial sector entities	-			
56c Amounts to be deducted from or added to T2 with regard to additional filters and deductions required pre- CRR	-	467, 468, 481		
of which: possible filter to unrealised losses	-	467		
of which: possible filter to unrealised gains	-	468		
57 Total regulatory adjustments to Tier 2 (T2) capital	**-**			
58 Tier 2 (T2) capital	**1,223**			
59 Total capital (TC = T1 + T2)	**8,362**			
59a Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)	43,108			
of which: items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc.)	-	472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)		
of which: items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	-	475, 475 (2) (b), 475 (2) (c), 475 (4) (b)		
Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc.)	-	477, 477 (2) (b), 477 (2) (c), 477 (4) (b)		
60 Total risk-weighted assets	**43,108**			
Capital ratios and buffers	-			
61 Common Equity Tier 1 (as a percentage of total risk exposure amount)	16.56%	92 (2) (a), 465		
62 Tier 1 (as a percentage of total risk exposure amount)	16.56%	92 (2) (b), 465		
63 Total capital (as a percentage of total risk exposure amount	19.40%	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 a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	10.00%	CRD 128, 129, 130		
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 Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-	CRD 131		
68 Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	5.96%	CRD 128		

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50. Own funds and capital requirements (continued)

in HRK million	(A) 2017	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to Preregulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013	(D) Reference to reconciliation tables
69 [non-relevant in EU regulation]	-			
70 [non-relevant in EU regulation]	-			
71 [non-relevant in EU regulation]	-			
Amounts below the thresholds 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)	5	36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)		
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)	46	36 (1) (i), 45, 48, 470, 472 (11)		
74 Empty set in the EU	-			
75 Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in article 38 (3) are met)	-	36 (1) (c), 38, 48, 470, 472 (5)		
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 rating-based approach (prior to the application of the cap)	159	62		
79 Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	26,429	62		
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)	-			
80 Current cap on CET1 instruments subject to phase-out arrangements	-	484 (3), 486 (2) & (5)		
81 Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	484 (3), 486 (2) & (5)		
82 Current cap on AT1 instruments subject to phase-out arrangements	-	484 (4), 486 (3) & (5)		
83 Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	484 (4), 486 (3) & (5)		
84 Current cap on T2 instruments subject to phase-out arrangements	-	484 (5), 486 (4) & (5)		
85 Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	484 (5), 486 (4) & (5)		

51. 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	
	2017	2018
Net result for the period	534	1,008
Profit or loss attributable to ordinary shareholders	534	1,008
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)	**31.42**	**59.33**

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 2018 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 271 to 284 and primary financial statements are presented in appendix 2 titled Differences between financial statements according to IFRS and local requirements.

Income statement			
	In HRK million		**GROUP**
		2017	**2018**
1.	Interest income	2,676	2,502
2.	(Interest expenses)	604	429
3.	(Expenses on share capital repayable on demand)	-	-
4.	Dividend income	1	1
5.	Fees and commissions income	937	968
6.	(Fees and commissions expenses)	222	234
7.	Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	5	28
8.	Gains or (-) losses on financial assets and liabilities held for trading, net	187	221
9.	Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	-	4
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	11	-
13.	Gains or (-) losses on derecognition of non-financial assets, net	15	5
14.	Other operating income	212	188
15.	(Other operating expenses)	171	175
16.	**Total operating income, net (1 – 2 – 3 + 4 + 5 – 6 + from 7 to 14 – 15)**	**3,047**	**3,079**
17.	(Administrative expenses)	1,231	1,266
18.	(Depreciation)	228	228
19.	Modification gains or (-) losses, net	-	-
20.	(Provisions or (-) reversal of provisions)	11	40
21.	(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	865	212
22.	(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	68	-
23.	(Impairment or (-) reversal of impairment on non-financial assets)	14	59
24.	Negative goodwill recognised in profit or loss	-	-
25.	Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	10	11
26.	Profit or (-) loss from fixed assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	-
27.	**Profit or (-) loss before tax from continuing operations (16 – 17 – 18 + 19 – from 20 to 23 + from 24 to 26)**	**640**	**1,285**
28.	(Tax expense or (-) income related to profit or loss from continuing operations)	183	254
29.	**Profit or (-) loss after tax from continuing operations (27 – 28)**	**457**	**1,031**
30.	**Profit or (-) loss after tax from discontinued operations (31 – 32)**	**-**	**-**
31.	Profit or (-) loss before tax from discontinued operations	-	-
32.	(Tax expense or (-) income related to discontinued operations)	-	-
33.	**Profit or (–) loss for the year (29 + 30; 34 + 35)**	**457**	**1,031**
34.	Attributable to minority interest [non-controlling interests]	(77)	23
35.	Attributable to owners of the parent	534	1,008

STATEMENT OF OTHER COMPREHENSIVE INCOME			
	In HRK million		**GROUP**
		2017	**2018**
36.	Income or (-) loss for the current year	457	1,031
37.	**Other comprehensive income (38 + 50)**	**(19)**	**(51)**
38.	**Items that will not be reclassified to profit or loss (from 39 to 45) + 48 + 49)**	**17**	**21**
39.	Tangible assets	-	-
40.	Intangible assets	-	-
41.	Actuarial gains or (-) losses on defined benefit pension plans	-	3
42.	Fixed assets and disposal groups classified as held for sale	-	-
43.	Share of other recognised income and expense of entities accounted for using the equity method	-	-
44.	Fair value changes of equity instruments measured at fair value through other comprehensive income	17	22
45.	Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-
46.	Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-
47.	Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-
48.	Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-
49.	Income tax relating to items that will not be reclassified	-	(4)
50.	**Items that may be reclassified to profit or loss (from 51 to 58)**	**(36)**	**(72)**
51.	Hedge of net investments in foreign operations [effective portion]	-	-
52.	Foreign currency translation	(2)	(6)
53.	Cash flow hedges [effective portion]	-	-
54.	Hedging instruments [not designated elements]	-	-
55.	Debt instruments at fair value through other comprehensive income	(37)	(72)
56.	Fixed assets and disposal groups classified as held for sale	-	-
57.	Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	-	-
58.	Income tax relating to items that may be reclassified to profit or (-) loss	3	6
59.	**Total comprehensive income for the current year (36 + 37; 60 + 61)**	**438**	**980**
60.	Attributable to minority interest [non-controlling interest]	(77)	23
61.	Attributable to owners of the parent	515	957

Income statement			
	In HRK million		**BANK**
		2017.	**2018.**
1.	Interest income	2,164	2,004
2.	(Interest expenses)	507	352
3.	(Expenses on share capital repayable on demand)	-	-
4.	Dividend income	25	21
5.	Fees and commissions income	610	642
6.	(Fees and commissions expenses)	165	177
7.	Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	3	14
8.	Gains or (-) losses on financial assets and liabilities held for trading, net	186	222
9.	Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	-	3
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	15	(18)
13.	Gains or (-) losses on derecognition of non-financial assets, net	8	4
14.	Other operating income	39	40
15.	(Other operating expenses)	129	126
16.	**Total operating income, net (1 – 2 – 3 + 4 + 5 – 6 + from 7 to 14 – 15)**	**2,249**	**2,277**
17.	(Administrative expenses)	885	913
18.	(Depreciation)	58	75
19.	Modification gains or (-) losses, net	-	-
20.	(Provisions or (-) reversal of provisions)	-	47
21.	(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	440	163
22.	(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	50	44
23.	(Impairment or (-) reversal of impairment on non-financial assets)	5	9
24.	Negative goodwill recognised in profit or loss	-	-
25.	Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	-	-
26.	Profit or (-) loss from fixed assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	-
27.	**Profit or (-) loss before tax from continuing operations (16 – 17 – 18 + 19 – from 20 to 23 + from 24 to 26)**	**811**	**1,026**
28.	(Tax expense or (-) income related to profit or loss from continuing operations)	162	196
29.	**Profit or (-) loss after tax from continuing operations (27 – 28)**	**649**	**830**
30.	**Profit or (-) loss after tax from discontinued operations (31 – 32)**	**-**	**-**
31.	Profit or (-) loss before tax from discontinued operations	-	-
32.	(Tax expense or (-) income related to discontinued operations)	-	-
33.	**Profit or (–) loss for the year (29 + 30; 34 + 35)**	**649**	**830**
34.	Attributable to minority interest [non-controlling interests]	-	-
35.	Attributable to owners of the parent	-	-

STATEMENT OF OTHER COMPREHENSIVE INCOME			
	In HRK million		**BANK**
		2017	**2018**
36.	Income or (-) loss for the current year	649	830
37.	**Other comprehensive income (38 + 50)**	**(17)**	**(32)**
38.	**Items that will not be reclassified to profit or loss (from 39 to 45) + 48 + 49)**	**13**	**17**
39.	Tangible assets	-	-
40.	Intangible assets	-	-
41.	Actuarial gains or (-) losses on defined benefit pension plans	-	1
42.	Fixed assets and disposal groups classified as held for sale	-	-
43.	Share of other recognised income and expense of entities accounted for using the equity method	-	-
44.	Fair value changes of equity instruments measured at fair value through other comprehensive income	13	20
45.	Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-
46.	Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-
47.	Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-
48.	Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-
49.	Income tax relating to items that will not be reclassified	-	(4)
50.	**Items that may be reclassified to profit or loss (from 51 to 58)**	**(30)**	**(49)**
51.	Hedge of net investments in foreign operations [effective portion]	-	-
52.	Foreign currency translation	-	-
53.	Cash flow hedges [effective portion]	-	-
54.	Hedging instruments [not designated elements]	-	-
55.	Debt instruments at fair value through other comprehensive income	(34)	(53)
56.	Fixed assets and disposal groups classified as held for sale	-	-
57.	Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	-	-
58.	Income tax relating to items that may be reclassified to profit or (-) loss	4	4
59.	**Total comprehensive income for the current year (36 + 37; 60 + 61)**	632	798
60.	Attributable to minority interest [non-controlling interest]	-	-
61.	Attributable to owners of the parent	632	798

Statement of financial position

	In HRK million		GROUP
		2017	2018
	ASSETS		
1.	**Cash, cash balances at central banks and other demand deposits (from 2 to 4)**	**4,639**	**4,954**
2.	Cash on hand	1,491	1,735
3.	Cash balances at central banks	2,735	2,976
4.	Other demand deposits	413	243
5.	**Financial assets held for trading (from 6 to 9)**	**247**	**278**
6.	Derivatives	52	33
7.	Equity instruments	-	-
8.	Debt securities	195	245
9.	Loans and advances	-	-
10.	**Non-trading financial assets mandatorily at fair value through profit or loss (from 11 to 13)**	**-**	**165**
11.	Equity instruments	-	165
12.	Debt securities	-	-
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)**	**8,018**	**8,602**
18.	Equity instruments	262	111
19.	Debt securities	7,756	8,491
20.	Loans and advances	-	-
21.	**Financial assets at amortised cost (22 + 23)**	**50,408**	**53,183**
22.	Debt securities	1,878	1,273
23.	Loans and advances	48,530	51,910
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	60	60
27.	Tangible assets	1,315	1,294
28.	Intangible assets	393	372
29.	Tax assets	251	229
30.	Other assets	594	554
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)**	**65,925**	**69,691**
	LIABILITIES		
33.	**Financial liabilities held for trading (from 34 to 38)**	**52**	**27**
34.	Derivatives	52	27
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 (od 44 do 46)**	**56,632**	**59,687**
44.	Deposits	55,399	58,128
45.	Debt securities issued	376	670
46.	Other financial liabilities	857	889
47.	Derivatives – Hedge accounting	-	-
48.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
49.	Provisions	267	205
50.	Tax liabilities	141	108
51.	Share capital repayable on demand	-	-
52.	Other liabilities	627	603
53.	Liabilities included in disposal groups classified as held for sale	-	-
54.	**TOTAL LIABILITIES (33+39+40+ from 47 to 53)**	**57,719**	**60,630**
	EQUITY		
55.	Initial capital	1,698	1,698
56.	Share premium	1,802	1,802
57.	Equity instruments issued other than capital	-	-
58.	Other equity instruments	-	-
59.	Accumulated other comprehensive income	244	223
60.	Retained profit	3,687	4,075
61.	Revaluation reserves	-	-
62.	Other reserves	85	85
63.	Treasury shares	-	-
64.	Profit or loss attributable to owners of the parent	534	1,008
65.	Interim dividends	-	-
66.	Minority interests [Non-controlling interests]	156	170
67.	**TOTAL EQUITY (from 55 to 66)**	**8,206**	**9,061**
68.	**TOTAL LIABILITIES AND EQUITY (54+67)**	**65,925**	**69,691**

Statement of financial position

	In HRK million		BANK
		2017	2018
	ASSETS		
1.	**Cash, cash balances at central banks and other demand deposits (from 2 to 4)**	**4,170**	**4,383**
2.	Cash on hand	1,366	1,565
3.	Cash balances at central banks	2,521	2,643
4.	Other demand deposits	283	175
5.	**Financial assets held for trading (from 6 to 9)**	**250**	**279**
6.	Derivatives	55	34
7.	Equity instruments	-	-
8.	Debt securities	195	245
9.	Loans and advances	-	-
10.	**Non-trading financial assets mandatorily at fair value through profit or loss (from 11 to 13)**	**-**	**23**
11.	Equity instruments	-	23
12.	Debt securities	-	-
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)**	**7,468**	**7,977**
18.	Equity instruments	116	102
19.	Debt securities	7,352	7,875
20.	Loans and advances	-	-
21.	**Financial assets at amortised cost (22 + 23)**	**43,035**	**46,424**
22.	Debt securities	1,391	1,020
23.	Loans and advances	41,644	45,404
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	989	1,027
27.	Tangible assets	603	686
28.	Intangible assets	111	120
29.	Tax assets	88	87
30.	Other assets	492	428
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)**	**57,206**	**61,434**
	LIABILITIES		
33.	**Financial liabilities held for trading (from 34 to 38)**	**52**	**27**
34.	Derivatives	52	27
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 (od 44 do 46)**	**49,235**	**52,937**
44.	Deposits	48,701	52,065
45.	Debt securities issued	376	670
46.	Other financial liabilities	158	202
47.	Derivatives – Hedge accounting	-	-
48.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
49.	Provisions	212	166
50.	Tax liabilities	132	81
51.	Share capital repayable on demand	-	-
52.	Other liabilities	433	413
53.	Liabilities included in disposal groups classified as held for sale	-	-
54.	**TOTAL LIABILITIES (33+39+40+ from 47 to 53)**	**50,064**	**53,624**
	EQUITY		
55.	Initial capital	1,698	1,698
56.	Share premium	1,802	1,802
57.	Equity instruments issued other than capital	-	-
58.	Other equity instruments	-	-
59.	Accumulated other comprehensive income	215	204
60.	Retained profit	2,693	3,191
61.	Revaluation reserves	-	-
62.	Other reserves	85	85
63.	Treasury shares	-	-
64.	Profit or loss attributable to owners of the parent	649	830
65.	Interim dividends	-	-
66.	Minority interests [Non-controlling interests]	-	-
67.	**TOTAL EQUITY (from 55 to 66)**	**7,142**	**7,810**
68.	**TOTAL LIABILITIES AND EQUITY (54+67)**	**57,206**	**61,434**

Statement of changes in equity

In HRK million **GROUP**

	Attributable to owners of the parent											Non-controlling interests		
	Equity	Share premium	Equity instruments issued other than capital	Other equity instruments	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	1,802	-	-	244	3,687	-	85	-	534	-	-	156	8,206
Effects of error corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effect of changes in accounting policies	-	-	-	-	30	(29)	-	-	-	-	-	-	-	1
Opening balance (current period) (1. + 2. + 3.)	1,698	1,802	-	-	274	3,658	-	85	-	534	-	-	156	8,207
Ordinary shares issue	-	-	-	-	-	20	-	-	-	-	-	-	-	20
Preference shares issue	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issue of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	(160)	-	-	-	-	-	-	(2)	(162)
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	-	-	-	-	-	534	-	-	-	(534)	-	-	-	-
Equity instruments increase or (-) decrease resulting from business combination	-	-	-	-	-	-	-	-	-	-	-	-		-
Share-based Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease of equity instruments	-	-	-	-	-	23	-	-	-	-	-	-	(7)	16
Total comprehensive income for the current year	-	-	-	-	(51)	-	-	-	-	1,008	-	-	23	980
Closing balance [current period] (from 4 to 20)	1,698	1,802	-	-	223	4,075	-	85	-	1,008	-	-	170	9,061

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 instruments	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	1,802	-	-	215	2,693	-	85		649	-	-	-	7,142
Effects of error corrections	-	-	-	-			-	-	-	-	-	-	-	-
Effect of changes in accounting policies	-	-	-	-	21	(28)	-	-	-	-	-	-	-	(7)
Opening balance (current period) (1. + 2. + 3.)	1,698	1,802	-	-	236	2,665	-	85	-	649	-	-	-	7,135
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	-	-	-	-	-	(160)	-	-	-	-	-	-	-	(160)
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	-	-	-	-	-	649	-	-	-	(649)	-	-	-	-
Equity instruments increase or (-) decrease resulting from business combination	-	-	-	-	-	-	-	-	-	-	-	-		-
Share-based Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease of equity instruments	-	-	-	-	-	37	-	-	-	-	-	-	-	37
Total comprehensive income for the current year	-	-	-	-	(32)	-	-	-	-	830	-	-	-	798
Closing balance [current period] (from 4 to 20)	1,698	1,802	-	-	204	3,191	-	85	-	830	-	-	-	7,810

Cash flow statements

			GROUP
	In HRK million	2017	2018
	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	640	1,031
	Adjustments:	-	-
10.	Impairment and provisions	904	293
11.	Depreciation	228	228
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	(12)	2
14.	Other non-cash items	3	244
	Changes in assets and liabilities from operating activities	-	-
15.	Deposits with the Croatian National Bank	(192)	(218)
16.	Deposits with financial institutions and loans to financial institutions	347	(422)
17.	Loans and advances to other clients	(2,243)	(5,754)
18.	Securities and other financial instruments at fair value through other comprehensive income	(221)	1,088
19.	Securities and other financial instruments held for trading	(196)	195
20.	Securities and other financial instruments at fair value through statement of profit or loss, not traded	-	-
21.	Securities and other financial instruments at fair value through statement of profit or loss	-	(4)
22.	Securities and other financial instruments at amortised cost	(344)	32
23.	Other assets from operating activities	(112)	(177)
24.	Deposits from financial institutions	45	(1,340)
25.	Transaction accounts of other clients	4,386	6,549
26.	Savings deposits of other clients	(206)	226
27.	Time deposits of other clients	(2,055)	(1,191)
28.	Derivative financial liabilities and other traded liabilities	(26)	(25)
29.	Other liabilities from operating activities	177	(65)
30.	Interest received from operating activities [indirect method]	2,593	2,451
31.	Dividends received from operating activities [indirect method]	-	10
32.	Interest paid from operating activities [indirect method]	(622)	(444)
33.	(Income tax paid)	(61)	-
	Net cash flow from operating activities (from 1 to 33)	**3,033**	**2,709**
	Investing activities	-	-
35.	Cash receipts from the sale / payments for the purchase of tangible and intangible assets	(183)	(216)
36.	Cash receipts from the sale / payments for the purchase of investments in branches, associates and joint ventures	(55)	-
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	(2)	-
39.	Other receipts/payments from investing activities	-	-
40.	**Net cash flow from investing activities (from 35 to 39)**	**(240)**	**(216)**
	Financing activities	-	-
41.	Net increase/(decrease) in loans received from financing activities	(1,824)	(1,069)
42.	Net increase/(decrease) of debt securities issued	56	301
43.	Net increase/(decrease) of Tier 2 capital instruments	-	-
44.	Increase of share capital	-	-
45.	(Dividends paid)	(219)	(160)
46.	Other receipts/(payments) from financing activities	-	-
47.	**Net cash flow from financing activities (from 41 to 46)**	**(1,987)**	**(928)**
48.	**Net increase/(decrease) of cash and cash equivalents (34 + 40 + 47)**	**806**	**1,565**
49.	**Cash and cash equivalents at the beginning of period**	**4,539**	**5,344**
50.	Effect of exchange rate fluctuations on cash and cash equivalents	-	-
51.	**Cash and cash equivalents at the end of period (48 + 49 + 50)**	**5,345**	**6,909**

	Cash flow statements		BANK
	In HRK million	2017	2018
	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	812	830
	Adjustments:	-	-
10.	Impairment and provisions	486	253
11.	Depreciation	58	75
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	(58)	(2)
14.	Other non-cash items	812	184
	Changes in assets and liabilities from operating activities	-	-
15.	Deposits with the Croatian National Bank	(192)	(218)
16.	Deposits with financial institutions and loans to financial institutions	656	(600)
17.	Loans and advances to other clients	(2,463)	(5,580)
18.	Securities and other financial instruments at fair value through other comprehensive income	(255)	1,101
19.	Securities and other financial instruments held for trading	(196)	195
20.	Securities and other financial instruments at fair value through statement of profit or loss, not traded	-	-
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	(321)	43
23.	Other assets from operating activities	49	(171)
24.	Deposits from financial institutions	110	(1,492)
25.	Transaction accounts of other clients	3,995	6,608
26.	Savings deposits of other clients	(235)	236
27.	Time deposits of other clients	(1,706)	(1,479)
28.	Derivative financial liabilities and other traded liabilities	(25)	(25)
29.	Other liabilities from operating activities	86	(25)
30.	Interest received from operating activities [indirect method]	2,152	2,088
31.	Dividends received from operating activities [indirect method]	-	20
32.	Interest paid from operating activities [indirect method]	(545)	(360)
33.	(Income tax paid)	(20)	-
	Net cash flow from operating activities (from 1 to 33)	**2,388**	**1,678**
	Investing activities	-	-
35.	Cash receipts from the sale / payments for the purchase of tangible and intangible assets	(20)	(120)
36.	Cash receipts from the sale / payments for the purchase of investments in branches, associates and joint ventures	(29)	(81)
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)**	**(49)**	**(201)**
	Financing activities	-	-
41.	Net increase/(decrease) in loans received from financing activities	(1,189)	(156)
42.	Net increase/(decrease) of debt securities issued	56	301
43.	Net increase/(decrease) of Tier 2 capital instruments	-	-
44.	Increase of share capital	-	-
45.	(Dividends paid)	(219)	(160)
46.	Other receipts/(payments) from financing activities	-	-
47.	**Net cash flow from financing activities (from 41 to 46)**	**(1,352)**	**(15)**
48.	**Net increase/(decrease) of cash and cash equivalents (34 + 40 + 47)**	**987**	**1,462**
49.	**Cash and cash equivalents at the beginning of period**	**3,887**	**4,874**
50.	Effect of exchange rate fluctuations on cash and cash equivalents	-	-
51.	**Cash and cash equivalents at the end of period (48 + 49 + 50)**	**4,874**	**6,336**

Off balance sheet items

			GROUP
		2017	2018
1.	Guarantees	2,838	2,915
2.	Letters of credit	136	215
3.	Bills of exchange	-	-
4.	Undrawn loans and loan commitments	5,439	5,874
5.	Other risk off balance items	38	20
6.	Futures	-	-
7.	Options	3	3
8.	Swaps	12,243	14,372
9.	Forwards	8,900	4,736
10.	Other derivatives	-	-

Off balance sheet items

			BANK
		2017	2018
1.	Guarantees	2,434	2,516
2.	Letters of credit	136	213
3.	Bills of exchange	-	-
4.	Undrawn loans and loan commitments	3,440	3,356
5.	Other risk off balance items	38	20
6.	Futures	-	-
7.	Options	3	3
8.	Swaps	12,896	14,927
9.	Forwards	8,900	4,736
10.	Other derivatives	-	-

Appendix 2 – Differences between financial statements according to IFRS and local requirements

Year ended 31 December 2018

					GROUP
Annual report (AR)	**in HRK million**	**Form Statement of financial position (CNB)**	**in HRK million**	**Diff.**	**Explanation**
Cash and cash balances	4,954	Cash on hand, Cash balances at Central bank and Other demand deposits	4,954	-	-
Financial assets held for trading	278	Financial assets held for trading	278	-	-
Non-trading financial assets at fair value through profit or loss- Equity instruments	11	Non-trading financial assets at fair value through profit or loss- Equity instruments	165	(154)	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	154	Non-trading financial assets at fair value through profit or loss- Debt securities	-	154	CNB- Equity instruments
Financial assets at fair value through other comprehensive income	8,602	Financial assets at fair value through other comprehensive income	8,602	-	-
Financial assets at amortised cost- Loans and advances	48,405	Financial assets at amortised cost- Loans and advances	51,910	-	-
Trade and other receivables	1,425			-	-
Finance lease receivables	2,080			-	-
Financial assets at amortised cost- Debt securities	1,273	Financial assets at amortised cost- Debt securities	1,273	-	-
Investments in subsidiaries, joint ventures and associates	60	Investments in associates, subsidiaries and joint ventures	60	-	-
Property and equipment	1,245	Tangible assets	1,294	-	-
Investment property	49			-	-
Intangible assets	372	Intangible assets	372	-	-
Tax Assets- Deferred tax assets	229	Tax Assets- Deferred tax assets	229	-	-
Other assets	554	Other assets	554	-	-
TOTAL ASSETS	**69,691**	**TOTAL ASSETS**	**69,691**	**-**	**-**

					GROUP
Annual report (AR)	**in HRK million**	**Form Statement of financial position (CNB)**	**in HRK million**	**Diff.**	**Explanation**
Financial liabilities held for trading- Derivatives	27	Financial liabilities held for trading- Derivatives	27	-	-
Financial liabilities measured at amortised cost- Deposits	58,128	Financial liabilities measured at amortised cost- Deposits	58,128	-	-
Debt securities in issue	670	Debt securities in issue	670	-	-
Other financial liabilities	889	Other financial liabilities	889	-	-
Provisions	205	Provisions	205	-	-
Tax liabilities	108	Tax liabilities	108	-	-
Other Liabilities	603	Other Liabilities	603	-	-
Total equity	9,061	Total equity	9,061	-	-
TOTAL LIABILITIES AND EQUITY	**69,691**	**TOTAL LIABILITIES AND EQUITY**	**69,691**	**-**	**-**

Appendix 2 – Differences between financial statements according to IFRS and local requirements
Year ended 31 December 2018

					GROUP
ANNUAL REPORT (AR)	**in HRK million**	**Form Income statement (CNB)**	**in HRK million**	**Diff.**	**EXPLANATION**
Interest income Other similar income	2,460 70	Interest income	2,502	28	CNB- Gains or losses on financial assets and financial liabilities held for trading, net
Interest expense Other similar expense	(381) (76)	Interest expense	(429)	(28)	CNB- Gains or losses on financial assets and financial liabilities held for trading, net
Fee and commission income	968	Fees and commissions income	968	-	-
Fee and commission expense	(234)	Fees and commissions expenses	(234)	-	-
Net trading result	221	Gains or losses on financial assets and financial liabilities held for trading, net Exchange differences [gain or loss], net	221 -	-	-
Personnel expenses Other administrative expenses	(701) (648)	Administrative expenses	(1,266)	(83)	CNB- Other operating expense
Depreciation and amortisation	(228)	Depreciation	(228)	-	-
Other operating result Rental income from investment properties & other operating leases Net impairment loss on financial instruments	(81) 117 (246)	Gains or losses from derecognition of non-financial assets, net Other operating income Other operating expense Provisions or cancellation of provisions Impairment or reversal of impairment on financial assets not measured at FVPL Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates Impairment of non-financial assets	5 188 (175) (40) (212) - (59)	83	AR - Other administrative expenses
Net result from equity method investments	11	Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	11	-	-
Dividend income	1	Dividend income	1	-	-
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	28	Gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	28	-	-
Gains/losses from financial instruments measured at fair value through profit or loss	4	Gains/losses from financial instruments measured at fair value through profit or loss	4	-	-
Pre-tax profit from continuing operations	**1,285**	**PRE-TAX PROFIT**	**1,285**	-	-
Income tax	**(254)**	Taxes on income	**(254)**	-	-
NET PROFIT OF THE YEAR	**1,031**	**NET PROFIT FOR THE PERIOD**	**1,031**	-	-

Appendix 2 – Differences between financial statements according to IFRS and local requirements

Year ended 31 December 2018

Annual report (AR)	in HRK million	Form Statement of financial position (CNB)	in HRK million	Diff.	Explanation
					BANK
Cash and cash balances	4.383	Cash on hand, Cash balances at Central bank and Other demand deposits	4.383	-	-
Financial assets held for trading	279	Financial assets held for trading	279	-	-
Non-trading financial assets at fair value through profit or loss- Equity instruments	9	Non-trading financial assets at fair value through profit or loss- Equity instruments	23	(14)	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	14	Non-trading financial assets at fair value through profit or loss- Debt securities	-	14	CNB- Equity instruments
Financial assets at fair value through other comprehensive income	7.977	Financial assets at fair value through other comprehensive income	7.977	-	-
Financial assets at amortised cost- Loans and advances Trade and other receivables	45.095 309	Financial assets at amortised cost- Loans and advances	45.404	-	
Financial assets at amortised cost- Debt securities	1.020	Financial assets at amortised cost- Debt securities	1.020	-	-
Investments in subsidiaries, joint ventures and associates	1.027	Investments in associates, subsidiaries and joint ventures	1.027	-	-
Property and equipment Investment property	669 17	Tangible assets	686	- -	- -
Intangible assets	120	Intangible assets	120	-	-
Tax Assets- Deferred tax assets	87	Tax Assets- Deferred tax assets	87	-	-
Other assets	428	Other assets	428	-	-
TOTAL ASSETS	**61.434**	**TOTAL ASSETS**	**61.434**	**-**	**-**

Annual report (AR)	in HRK million	Form Statement of financial position (CNB)	in HRK million	Diff.	Explanation
					BANK
Financial liabilities held for trading- Derivatives	27	Financial liabilities held for trading- Derivatives	27	-	-
Financial liabilities measured at amortised cost- Deposits	52,065	Financial liabilities measured at amortised cost- Deposits	52,065	-	-
Debt securities in issue	670	Debt securities in issue	670	-	-
Other financial liabilities	202	Other financial liabilities	202	-	-
Provisions	166	Provisions	166	-	-
Tax liabilities	81	Tax liabilities	81	-	-
Other Liabilities	413	Other Liabilities	413	-	-
Total equity	7,810	Total equity	7,810	-	-
TOTAL LIABILITIES AND EQUITY	**61,434**	**TOTAL LIABILITIES AND EQUITY**	**61,434**	**-**	**-**

Appendix 2 – Differences between financial statements according to IFRS and local requirements

Year ended 31 December 2018

ANNUAL REPORT (AR)	in HRK million	Form Income statement (CNB)	in HRK million	Diff.	EXPLANATION
					BANK
Interest income Other similar income	1,960 72	Interest income	2.004	28	CNB- Gains or losses on financial assets and financial liabilities held for trading, net
Interest expense Other similar expense	(305) (75)	Interest expense	(352)	(28)	CNB- Gains or losses on financial assets and financial liabilities held for trading, net
Fee and commission income	642	Fees and commissions income	642		
Fee and commission expense	(177)	Fees and commissions expenses	(177)	-	-
Net trading result	204	Gains or losses on financial assets and financial liabilities held for trading, net Exchange differences [gain or loss], net	222 (18)	-	
Personnel expenses Other administrative expenses	(504) (478)	Administrative expenses	(913)	(69)	CNB- Other operating expense
Depreciation and amortisation	(75)	Depreciation	(75)		
Other operating result Rental income from investment properties & other operating leases Net impairment loss on financial instruments	(79) 2 (199)	Gains or losses from derecognition of non-financial assets, net Other operating income Other operating expense Provisions or cancellation of provisions Impairment or reversal of impairment on financial assets not measured at FVPL Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates Impairment of non-financial assets	4 40 (126) (47) (163) (44) (9)	69	AR - Other administrative expenses
Dividend income	21	Dividend income	21	-	-
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	14	Gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	14	-	-
Gains/losses from financial instruments measured at fair value through profit or loss	3	Gains/losses from financial instruments measured at fair value through profit or loss	3	-	-
Pre-tax profit from continuing operations	**1,026**	**PRE-TAX PROFIT**	**1,026**	-	-
Income tax	**(196)**	Taxes on income	**(196)**	-	-
NET PROFIT OF THE YEAR	**830**	**NET PROFIT FOR THE PERIOD**	**830**	-	-