Erste&Steiermärkische Bank d.d.

Annual Report for the year ended 31 December 2019

CONTENTS

Introduction

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

Croatian and English language version

This document comprises the Annual Report of Erste&Steiermärkische Bank d.d. for the year ended 31 December 2019 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

Positive trends in 2019 are related to the continuation of the fiscal consolidation process, which resulted in a higher credit rating of the Republic of Croatia and the acceptance of the letter of intent to join the European Exchange Rate Mechanism. At this moment, Croatia's economic growth is relatively healthy, although somewhat slower as regards convergence, approaching the level of development of other European countries. With a strong orientation and a clear strategy for the introduction of the euro, and efforts to increase investment security, provided that fiscal discipline is maintained and structural reforms mandatorily implemented, Croatia has a chance to attain stable and increasing growth rates in the medium term.

Demanding market environment and the banking transformation

Decline of interest margins, positive trends in the transactions business segment, decline of risk cost, and focus on operating efficiency remain the main characteristics of the banking market. In the current and following years, we expect a further shortening of the time to market, more frequent changes and adjustments of existing products, and the continuation of a comprehensive digital transformation in banking. Banks are undergoing a significant change, increasingly transforming from their traditional position as providers of financial products and services into institutions of financial knowledge which provide comprehensive advisory services to their clients and look after their prosperity. It is precisely in this advisory service segment, coupled with a partnership approach to clients while simultaneously following digital trends and implementing adequate digital solutions, that the banks can find space for themselves and build a long-term and sustainable position on the market.

During 2019, European Central Bank has started, in cooperation with a local regulator Croatian National Bank, a process of verification of financial condition of total of five largest Croatian banks, including Erste Bank. Elements in the focus of the review were capital adequacy, the level of resilience of the Bank and its subsidiaries to extreme stress, i.e. unfavorable business or macroeconomic developments, and the quality of the portfolio and processes. The complexity and comprehensiveness of the verification process required a great engagement, dedication and commitment from the employees, as well as the quality preparation and organization of work.

Banking sector as the driver of economic growth and a pillar of building Croatia’s regional leadership

A stable, highly liquid and adequately capitalised banking sector, which has the capacity to support all quality projects, particularly in the real sector, represents Croatia's substantial comparative advantage compared to countries in the region. As such, it should be the driver of economic growth and a strong pillar of building Croatia's regional leadership and position as the region's financial centre. Therefore it would be good to take maximum advantage of the potentials of such a system and avoid measures or influences that may tarnish its positive characteristics.

Report of the President of the Management Board (continued)

Healthy new loan growth in retail and corporate

We are pleased with our year-end 2019 results. A total of HRK 5.6 billion of new loans were approved in the retail segment. Housing loans have a higher growth rate, their portfolio having grown by about 10%. At the same time, the growth of the cash loans portfolio has slowed down to about 4%, partially due to the alignment with the recommendations of the Croatian National Bank. The corporate sector saw a healthy growth too. A total of HRK 7.7 billion worth of loans was approved to businesses, with small and medium-sized companies accounting for 60% of this amount. The bank has diversified its credit portfolio. Tourism plays an important but not dominant role, accounting for around 20% of it, in line with the segmentation of the economy in general. We recently signed an agreement with the EBRD on a new credit line amounting to EUR 100 million for financing tourism in Croatia and Montenegro, which has made us the first partner bank in this programme in the entire Eastern Mediterranean. We provide adequate support to other sectors as well, ranging from retail and industry to agriculture. We are also happy to see the trends relating to the launch of an increasing number of infrastructural projects financed by EU funds. We try to support such projects to the maximum extent possible.

Proactive approach to the development of digital solutions

Having in mind the PSD2 regulations entering into force, whose full effects will only become apparent in the coming years, we have taken a proactive approach to the development of digital solutions within the framework of so-called open banking. The KeksPay app, whose primary purpose is to allow users to send and receive money transfers free of charge, is a very successful example. A little over a year after its launch, the app has around 100,000 users, 75% of whom are not Erste Bank's clients. We also take pride in the fact that more than 6,000 citizens have attended our free financial literacy workshops as part of the Smart Finance School initiative that we launched in early 2019. We would like to mention that we were presented with the award for the best private banking service in Croatia for the third time in the past five years by international magazines from The Financial Times Group, The Banker and PWM. In addition, we received the award for the most active EBRD partner bank in financing international trade in Croatia for the second consecutive year, while Erste Bank's subsidiary Erste Card Club received the Diners Club International award for the best large franchise in the EMEA region.

Prosperity of Croatian society as the ultimate goal

As one of the leading banks on the Croatian market and a part of one of the biggest providers of financial services in Eastern Europe, which celebrated its 200th anniversary in 2019, Erste Bank operates with the aim of supporting and expanding the prosperity of its clients, employees and Croatian society as a whole. The source of this approach can be found in the fundamental strategic document of its parent Erste Group, the Statement of Purpose, whose main goal is spreading prosperity and serving the civil society in Central and Eastern Europe. As a result, through the wide range of its financial activities, as well as the so-called non-financial business segment as an active addition, Erste Bank also assumes an active position in the area of public communication, which it bases on the principles of openness, availability and transparency towards clients, as well as all other public stakeholders. The Bank believes in the equality of all people, i.e., their right to achieve personal goals and ambitions regardless of their differences, and believes that this is precisely what reflects the strength of society as a whole. That is why we believe it is always useful to have a dialogue and constructive discussion about certain social issues and challenges, with the ultimate aim of long-term advancement of the whole social community.

Christoph Schoefboeck
President of the Management Board

Management Board

CHRISTOPH SCHOEFBOECK, President of the Board
Responsibilities: Human Resources Division, Legal Division, Marketing Division (since 1 January 2020), Corporate Communication Office, Project Portfolio Management office (since 1 January 2020), Internal Audit Division (since 1 January 2020), responsibilities until 31 December 2019: Risk Management Division, Credit Risk Management Division, Collection and Work-out Division, Non-Financial Risk Division, Corporate Security Division.

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.
Member of the Board until 31 December 2019.

MARTIN HORNIG, Member of the Board
Responsibilities: Processing Division, IT and Organization Division, IT Strategy, Architecture & Governance Office, Property and Cash Management Division, Project Portfolio Management Office (until 31 December 2019).

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

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

HANNES FROTZBACHER, Member of the Board
Responsibilities: Risk Management Division, Credit Risk Management Division, Collection and Work-out Division, Corporate Security Division, Non-financial Risk Division.
Member of the Board since 1 February 2020.

Business results of Erste&Steiermärkische Bank d.d. and its subsidiaries in 2019

I. Macroeconomic indicators

Economic activity kept overall stable pace thus far in 2019, though losing some of its momentum from the beginning of the year, with latest third quarter data showing 2.9% y/y increase (vs. 4.1% and 2.4% in first and second quarter, as follows). Growth remained driven by solid domestic demand support, as both year to date (YTD) private consumption and investments showed vivid growth pattern. Following disappointing first half of year 2019 performance, net exports surprised in third quarter with positive contribution amid stronger exports dynamics vs. mild imports increase. Nevertheless, going into fourth quarter of 2019 we see support from exports toning down, while domestic demand should continue to support Gross domestic product (GDP) profile. Thus, we see financial year 2019 figure landing at 3% mark.

The outlook for year 2020 implies similar picture, with focus remaining on domestic demand. Ongoing positive trends on the labour market side should continue to boost private consumption, while tourism and stronger European Union (EU) funds role should back-up investments profile. Exports outlook remains the key growth headwind also in 2020, reflecting weaker growth prospects of main trading partners. In addition, favourable tourism supports faces normalization scenario amid high base and stronger competitive pressures. Thus, along with domestic demand boosted pressures on the imports side, net exports contribution should overall stay in red. Bottom line, we have our call for 2020 at 2.5%.

External position continues to improve, with current account trends remain supportive as cumulative surplus picks up to 2.3% of GDP mark (on fourth quarter trailing basis), following strong current accounts (CA) performance in third quarter of 2019. We expect steady developments in quarters ahead, and in the mid-run seeing CA balance remaining in mild green despite GDP growth being more reliant on domestic demand. In addition, external position should get additional support from declining foreign debt stock.

Favourable economic trends continue to positively feed into labour market developments, with unemployment rate trending on average 1.4 percentage point (pp) lower on annual basis during 2019 (registered unemployment), while employment levels also kept steady recovery profile. Following strong reduction in average unemployment rate in recent years (International Labor Organization (ILO) methodology), we expect even stronger performance in 2019, with average figure moving towards 6.8% mark (vs. 8.4% in 2018). However, such strong developments are also reflecting pronounced migration flows, which affected unemployment levels. Wage performance kept favourable pattern, with both nominal and real wages showing steady growth developments (former being up just below 4% and latter approx. 3%).

The consumer price index (CPI) trajectory kept overall stable developments throughout the year, with only December figure delivering somewhat stronger performance as CPI moved above 1% mark (i.e. at 1.4% y/y) amid higher food prices. On financial year 2019 level, average CPI landed at 0.8% vs. 1.5% from 2018. As far as outlook is concerned, we expect to see somewhat more accelerated demand side pressures amid stronger consumption profile, while supply side remains mostly sensitive to energy prices, which are seen staying under control. The year 2020 is thus expected to show moderate inflation acceleration towards 1.2% mark.

Exchange rate offered limited surprises, as domestic currency moved largely in line with expectations. We do not expect to see any sudden changes in the exchange rate pattern, with Central Bank keeping HRK in tight band, especially having in mind the European Exchange Rate Mechanism (ERM II) membership aspirations. Thus, we see domestic currency moving in 7.35-7.45 band during 2020, with CNB standing ready to mitigate any short-term volatility. In addition, high local currency (LCY) liquidity would continue to anchor money market (MM) rates close to record lows and support the long end of the curve.

I. Macroeconomic indicators (continued)

Positive developments on the fiscal side continued, as Croatia should run a balanced budget in 2019, while we expect only a modest (-0.5% of GDP) deficit in 2020, with election cycle also reflecting on fiscal policy in 2020. Public debt should go below 70% of GDP in 2020, while entry into ERM II in 2020 would open room for additional rating upgrades. In regards to the latter, 2019 was marked as year where Croatia returned to the investment grade zone, as both S&P and later Fitch upgraded its rating to 'BBB-'level. Rationale outlined expected supportive factors, with steady and sustainable economic trajectory and positive fiscal performance topping the list. Going forward, we continue to expect an upgrade from Moody's as well, as it is currently holding Croatia two notches below.

	2013	2014	2015	2016	2017	2018	2019 (f)[1]
Nominal GDP (HRK. billion)	331.2	331.3	339.7	351.2	366.4	383.0	400.5
Nominal GDP (EUR. billion)	43.7	43.4	44.6	46.6	49.1	51.7	54.2
GDP per capita (in thousand EUR)	10.3	10.3	10.6	11.2	11.9	12.6	13.3
Real GDP (growth y/y. %)	(0.5)	(0.1)	2.4	3.5	3.1	2.7	3.0
CPI (y/y. average %)	2.2	(0.2)	(0.5)	(1.1)	1.1	1.5	0.8
Current account balance (EUR. billion)	(0.5)	0.1	1.5	1.0	1.7	1.0	1.1
Current account balance (% of GDP)	(1.1)	0.3	3.3	2.1	3.4	1.9	2.0
Foreign debt (EUR. billion)	48.5	49.1	48.2	44.7	43.7	42.7	43.0
Foreign debt to GDP (%)	110.8	113.0	108.0	95.9	88.9	82.7	79.4
Loc. Curr./EUR year-end	7.64	7.66	7.64	7.56	7.51	7.42	7.44
Loc. Curr./EUR average	7.57	7.63	7.61	7.53	7.46	7.41	7.41
Unemployment (%. ILO definition)	17.3	17.3	16.3	13.1	11.3	8.4	6.8

[1] forecast

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

II. Erste Bank's lending operations in 2019

Erste Bank’s total loans to customers on 31 December 2019 amounted to HRK 43.5 billion, which is a 2.34% increase compared to the end of 2018, when they amounted to HRK 42.5 billion. According to the Croatian National Bank’s statistics from the end of December 2019, Erste Bank’s market share in total loans amounted to 16.51%.

The positive trend in the segment of retail loans continued in 2019, 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 18.71 billion on 31 December 2019, which is an increase of HRK 944 million compared to the previous year, with the largest growth having been recorded in housing loans, which resulted in the growth of the market share (0.35%) in comparision with last year and as of 31 December 2019 amounted 11.25%.

Chart 1: Retail Loans in HRK million

Total portfolio of the Bank’s gross loans to corporates amounted to HRK 24.8 billion on 31 December 2019, which is an increase in the amount of HRK 50 million (0.2%) in comparison to 31 December 2018. This increase also affects the increase in market share. Thus, in the corporate loans, the market share recorded a growth of 0.13% compared to the same period last year, amounting to 19.09% as of 31 December 2019. In the segment of companies (non-financial), the market share is 20.35% as of 31 December 2019 with a market share growth of 1.76% compared to the same period last year. This way the Bank kept the second position in the SME segment.

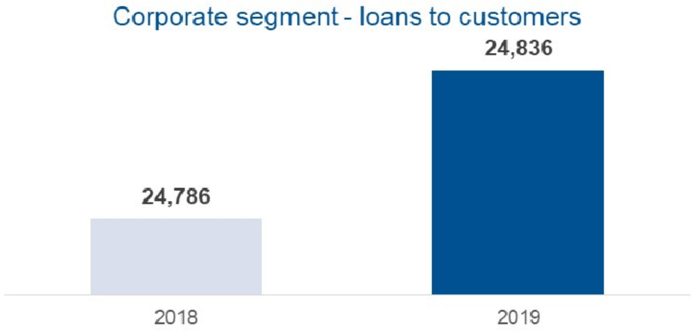

Chart 2: Corporate segment in HRK million

III. Erste Bank's deposits in 2019

Erste Bank's total deposits from customers at the end of 2019 amounted to HRK 48.5 billion, which is 3.13% more than at the end of 2018 when they amounted to HRK 47 billion.

The retail deposit market continued its growth in 2019, despite the significant decrease of term deposits with the continuing trend of decreasing interest rates. Total retail deposits on 31 December 2019 amounted to HRK 31.8 billion and recorded a growth of HRK 1.27 billion.

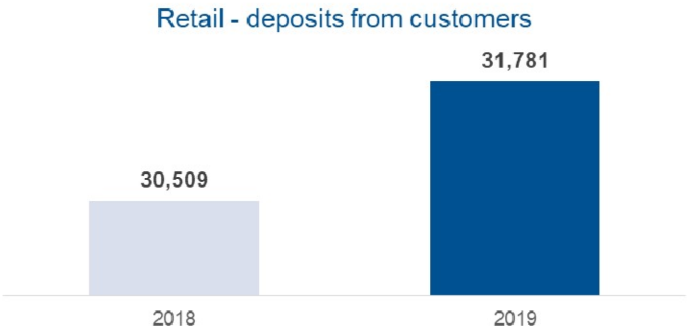

Chart 3: Retail deposits in HRK million

Total corporate deposits on 31 December 2019 amounted to HRK 16.7 billion, recording an increase of 1.21% compared to 31 December 2018, when they amounted to HRK 16.5 billion. The biggest contribution to this growth comes from sight deposits, which recorded an increase of 5% compared to the previous year.

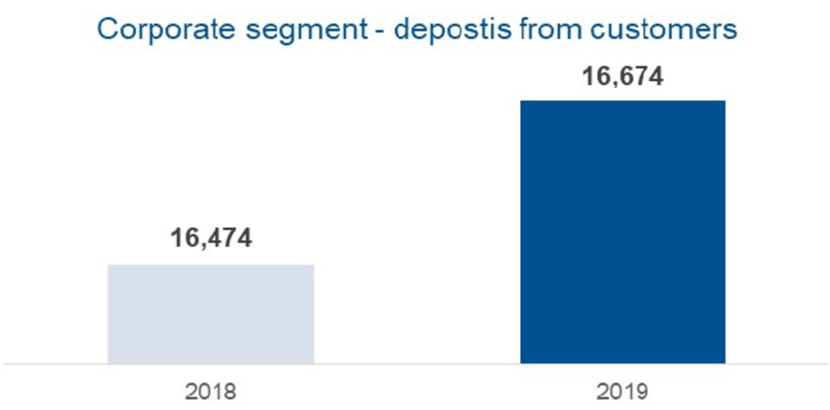

Chart 4: Corporate segment deposits in HRK million

IV. Erste Bank's retail and corporate products and services in 2019

Retail

High service quality and customer satisfaction, as the main strategic determinants of Erste Bank's business operations, have marked business operations in the past year and once again best market results have been achieved in this area. This also contributed to the continued growth of the customer base of private clients, which resulted in their number exceeding 845,000. In addition, for the third time in the last five years, Erste bank has won the Best Private Banking Service in Croatia Award for 2019 as part of *Global Private Banking Awards*, jointly organized by the International Financial Magazines of the Financial Times - The Banker and PWM.

Changes in customer behaviour and habits, technology and regulatory framework continually require adjustments of the existing business model and the role of distribution and communication channels. Branches are increasingly becoming advisory centres where employees deal more complex customer requirements, while more and more clients use digital services and self-service devices to perform transactions and solve simpler requests by themselves. During 2019, activities were continued within the branch transformation project, which, in addition to a new visual identity, also includes a new way of operation that is focused on the employees' advisory role and clients' unique customer experience.

In mid-December 2018, Keks Pay was launched. It is an innovative mobile app for iOS and Android devices focused mainly on Peer-to-Peer payments. During the first year, Keks Pay attracted more than 100,000 customers, 75% of whom were clients of other banks, and 25% had an account with Erste Bank. In mid-2019, a new functionality was introduced as part of Keks Pay, enabling customers to pay for parking in more than 60 Croatian cities at no additional charge. The app also helps in selecting the correct parking area using intelligent GPS positioning. Only three months since its launch, this functionality has generated about 50,000 transactions or paid parking tickets. Keks Pay is an application primarily targeted at individuals, while businesses may participate as retailers that accept Keks Pay payments at points of sale.

In addition, last year was marked by intensive activities aimed at the young customers segment, and in addition to the already well-known Medo Štedo savings focused program, a special current account called Erste Cashtag was introduced. It is intended for young people until the age of 18 and it includes a debit card ready for use. In addition, the existing Erste Club offer for students and young people who are preparing to enter the labour market, has been further enhanced based on their specific needs.

In the retail loan segment, activities that have been continuously implemented include those aimed at adapting the terms and characteristics of products to customer requirements and the market environment, including regulatory changes. Last year, the Bank actively participated in the Agency for Transactions and Mediation in Immovable Properties program of financing the purchase of a real estate or building of houses, for which the Government of the Republic of Croatia approved subsidies in the amount up to half of the instalment or annuity.

Corporate entities

The development and improvement of products and services for corporate entities is governed primarily by the strategic goals and expectations of clients, in order to provide complete financial services to clients, as well as to maintain the position of an innovative and first-choice bank for clients. A successful series of business collaborations with domestic and international financial institutions as well as further development of services in the most dynamic area of transactional banking, primarily in the cash management segment, were continued.

IV. Erste Bank's retail and corporate products and services in 2019 (continued)

In the segment of transactional business, the process of opening transaction accounts for corporate entities, in addition to the existing digital online request for account opening, was enriched with yet another additional channel via the FINA START project, which enabled the digital setting up of a corporate entity at the level of the Republic of Croatia. The introduction of the START system is part of the measures of the National Reform Program of the Government of the Republic of Croatia. Activities aimed at improving payment services have continued, and the network of Erste Smart Cash devices has been expanded, enabling clients to make cash deposits in domestic currency on their own in self-service areas of branches. Activities on further refinements and improvements of existing services and the development of new ones, which will enable clients to manage their funds at the regional level, have been intensified.

The implementation of the socially responsible banking program *Step by Step*, a joint program of the Erste Group members, continued. The aim of the program is to contribute to community development, social and economic equality and financial inclusion of citizens. Since its launch three years ago until the end of 2019, Erste Bank has financially supported more than 150 clients and has directly influenced the creation of 235 new jobs in Croatia. In addition, most clients who have joined the program confirmed that they are now in a better economic situation.

In the small business segment, 2019 was characterized by increased demand for financial resources, especially investment loans. Demand for more favourable sources of funding has increased significantly, through numerous collaborations with institutions in local markets and international financial institutions. The most significant collaborations in 2019 include Croatian Agency for SMEs, Innovations and Investments (HAMAG) individual and portfolio guarantees, HAMAG guarantees for rural development, Croatian Bank for Reconstruction and Development (HBOR) co-financing from European Structural Investment Funds (ESIF), and European Investment Fund (EIF) InnovFin guarantees.

In order to ensure more favourable sources of financing for corporate entities, in the beginning of April framework loan contracts for working capital were signed with the HBOR for the amount of HRK 65 million and a framework loan contract for an investment in the amount of HRK 70 million. At the end of the year, an agreement was signed on securing a portfolio of working capital loans for exporters. The insurance program is intended for banks as policy holders to facilitate access to financing the working capital by SMEs. With the new program, the Bank will be able to use HBOR's loan portfolio insurance policy to approve placements to smaller exporters, that is, those who are growing or looking to grow in their exports. The aim of the program is to encourage entrepreneurs to export and enter foreign markets.

At the end of the year, a fifth loan contract with the European Investment Bank (EIB) in the total amount of EUR 150 million was signed and negotiations were concluded with the European Bank for Reconstruction and Development (EBRD) regarding a new tourism support line *Croatia Inclusive Tourism credit line* in the amount of EUR 100 million.

In September, an amendment to the InnovFin guarantee agreement with the EIF on the SME loan portfolio was signed and an increase of the maximum volume of the EIF's InnovFin SME guarantee portfolio was agreed. In addition, the EIF has named Erste Bank the most active bank in the use of the InnovFin guarantee in the Republic of Croatia. During 2019, negotiations regarding the *umbrella* structure of the InnovFin with Sparkasse banks in Bosnia and North Macedonia have been intensified and its contracting and implementation are expected in 2020. In addition, due to the significant investment potential of Chinese entrepreneurs in projects in Croatia, especially in the road and rail transport and metal industries, Erste Bank, as the only bank in the Croatian market, has established a special organizational unit intended to strengthen the cooperation between the Croatian and Chinese markets.

V. Direct Channels Division

Card business and mobile payment

In 2019, Erste Bank increased total number of debit cards by 5.56% to end the year with 887,967 debit cards. In 2019 we achieved an increase of 21.96% in the number of transactions at POS terminals while the volume of POS transactions increased by 21.45% compared to the previous year, while at the same time total number of transactions made by debit cards grew by 16.78% and total volume by 12.98% compared to 2018.

In the first half of the year we analyzed Mastercard and Visa offers for future cooperation and made a decision to broaden the cooperation with Visa Europe and to migrate complete Debit Card portfolio linked to current and business accounts to Visa branded cards. The Bank signed the contract with Visa in October 2019 and began the project and preparation of migration with the goal to finish the migration in the first half of the 2020. Over 500,000 Maestro and Mastercard cards are expected to be migrated.

By the end of the year, Erste Bank has had 750 ATMs. 165 ATMs had deposit options provided (22% of the network), apart from withdrawal options, which is an increase of 14% compared to the previous year (2018: 145). At 563 ATMs (75% of the network), besides contact, there is possibility to conduct contactless transactions. Of the total number of transactions on ATMs, 12% of them were contactless, which is an increase of 100% compared to last year. When conducting a contactless transaction, the card is always in the hands of the user, which contributes to security, and is enough to tap it on a contactless reader at the ATM and the transaction will take place in a few seconds. The number of ATMs with a touch screen increased to 256 accounting for 34% of the ATM network installed, which is an increase of 86% compared to the last year when there were 138 touch screen ATMs. The specificity is that the client can request all ATM services on the touch screen.

Digital banking

In 2019 Erste Bank recorded growth in new digital users, as well as the growth in transactions and revenues from digital services. During 2019, the main focus was the client activation and digital sales through Erste mBanking and Erste NetBanking services. Bank's clients recognized advantages of digital services as visible from the increase in activation of new digital users (Retail and micro business segment), which is higher by 22% while the total number of active digital users (Retail and micro business segment) is higher by 22.44%.

Clients have particularly recognized the Erste mBanking service for its practical and functional features. The number of active users increased by 40.76% to 172,939 compared to 2018, while total number of mBanking users increased by 32.21% to 220,514. The number of retail users of Erste NetBanking services grew to 178,009, an increase of 3.57% as compared to 2018, while the number of retail users of Erste mBanking services grew to 220,514 in 2019, an increase of 32.21% as compared to 2018. The increase of active mBanking users had an impact on the increase of transactions. In 2019, 7,901,706 transactions were made, an increase of 47.14% as compared to the previous year. There is a slight decrease in the number of transactions through Erste NetBanking by 7.31%.

If looking at the overall usage of digital banking services (Erste NetBanking, Erste mBanking, Erste SMS, Erste kiosk, Erste NetPay and direct debits), the services recorded a significant growth rate. In comparison to 2018, the number of transactions increased by 9.68% and the volume of transactions increased by 22.31%. Through all above mentioned digital channels, 12,618,125 transactions were made in a total volume of HRK 15.6 billion.

V. Direct Channels Division (continued)

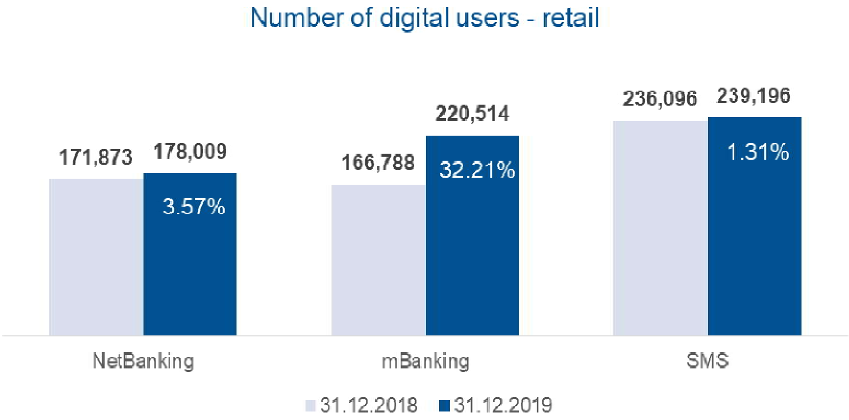

Chart 5: Number of digital banking users – retail

With activation and acquisition campaigns through Erste NetBanking and Erste mBanking, the Bank offered various products that clients could contract through the respective services.

Corporate entities

The Erste NetBanking service has increased the number of users (one company could have more than one user) by 7.13% in comparison to 2018 and amounted to 54,295 users while the number of business entities grew by 6.89% and amounted to 40,438 users.

The Erste mBanking service recorded significant growth (one company could have more than one user). The number of users increased by 56.48% (20,225 users) and the number of corporate client users increased by 55.55% (18,429 companies). Through all digital services (Erste NetBanking, Erste mBanking and Multicash) HRK 28.7 million transactions were made (in all currencies), which is by 18.6% higher as compared to 2018, a total volume of HRK 275.1 billion (increase of 27.83%).

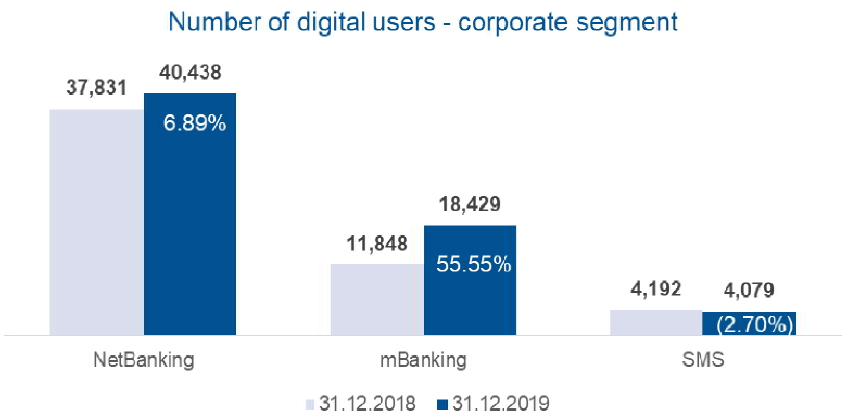

Chart 6: Number of digital banking users – corporate entities

V. Direct Channels Division (continued)

During 2019, the PSD2 API & Security project has been completed and implemented. Within the project, all remaining activities related to compliance with the new Law on Payment Transactions were completed. The key changes are the introduction of the production PSD2 API interface to connect other payment service providers (TPP) to the Bank's system and the introduction of a new authorization method on digital channels. Besides that, during 2019, the project team has worked tirelessly to develop George digital platform, whose production is expected during 2020.

Contact Centre

Through the Contact Centre, clients contacted the Bank a total of 856,238 times, almost the same number of contacts as in 2018, out of which 582,962 requests were resolved by the Contact centre's agents, i.e. 3% more than the year before. Out of this number, 87% of the request were resolved by agents over the telephone, while the rest regards communication by e-mail, chat and Facebook. Through the interactive voice response (IVR) 273,276 entries were recorded, i.e. 5% less than the year before. In 2019, the results of Customer Experience and Service Quality researches continued to record results above expectations.

VI. Financial markets

Trading in general

Local financial market reached a record level of liquidity in 2019 and interest rates remained at low levels as a result of continued expansionary monetary policy by the Croatian National Bank (CNB). CNB intervened several times, preventing further appreciation of the domestic currency. Raising Croatia's credit rating to investment grade caused a significant drop in government bond yields compared to 2018.

Money Market

Year 2019 was marked by the continuity of a period of extremely high HRK liquidity in the system, low interest rates and consequently illiquid markets. The liquidity surplus by the end of the year amounted to HRK 34.1 billion, which is the level at which liquidity was maintained throughout the year, with small fluctuations. This is 10 times the minimum amount required for the system to function normally. Therefore, the Bank has not once questioned the maintenance of minimum reserves. The cause of such high liquidity in the system can also be found in the foreign exchange interventions of the CNB, which in 2019, through the purchase of the euro, released additional HRK 8 billion in the system.

FX Market

Early in January, EUR/HRK exchange rate slightly falls to 7.44, afterward, during February, appreciation pressures strengthened and HRK begins to strengthen to 7.40. To prevent the domestic currency from strengthening too much, CNB intervened on the market, where they bought from commercial banks EUR 450.3 million at average exchange rate of 7.4168. After the intervention, exchange rate has stabilised itself in narrow range of 7.4100 – 7.4300. Easter holiday usually means the beginning of the tourist season, which is reflected in enhanced inflow of foreign currency, but it also means the downward pressures on the exchange rate EUR/HRK. During mid-May and early June pressure on stronger kuna eased due to dividend payments.

Debt securities market

During 2019 activities on local capital market were mostly driven by refinancing needs, primarily by the Ministry of Finance. Considering that both European Central Bank (ECB) and CNB had expansionary monetary policy during 2019, the excess of liquidity was extremely high and even reaching record levels. Consequently, we ended 2019 with record low yields, kuna denominated bond CROATE, 2,375, 07/09/29 (HRRHMFO297A0) finished the year at the yield of 0.65% whereas, at the beginning of the year, with the same bond was traded at the level of 2.40%. On international market we had similar developments and EUR denominated Croatian eurobonds were traded in the same direction. At the beginning of the year, bond denominated in euros CROATI, 2.75, 01/27/30 (XS1713475306) was traded at the level of 2.70%, only to finish the year with a yield of just 0.75%. The market share of the Bank in secondary market trading during 2019 (source: Zagreb Stock Exchange) was 38% which kept bank at first place, with the total size of local government debt traded by the Bank in the amount of HRK 3.26 billion.

VI. Financial Markets (continued)

Equity market

Year 2019 proved to be a good year for Croatian equity market and for local institutional investors. Equity index CROBEX had almost stable and continuous growth throughout the year as well as the total increase of 15.6% and ended the year with 2,017 points. Total traded volume was HRK 2.7 billion which represents increase of 26.2% compared with 2018.

The Bank maintained its 2nd position (as well as the leader position among local banks) with slightly lower market share of 11.2% in comparison to 14.3% market share from 2018 but with almost the same traded volume of HRK 607 million (HRK 607 million vs HRK 614 million).

Capital markets

Domestic capital markets, both equity and debt capital market is still subdued. Activities of debt issuers through public offerings were mostly limited to refinancing or pre-funding of maturing debt, however, stronger inflow of requests for proposal for debt as well as equity funding can be observed. In 2019, the Republic of Croatia issued 4 bonds on the domestic capital markets in the total nominal amount of HRK 19.7 billion (app. HRK 9 billion more than in 2018). The Bank acted as a joint lead arranger on the mentioned Republic of Croatia government bond transactions in 2019.

The Bank is one of the leading debt securities arrangers in the Republic of Croatia with 25% of the market share in 2019 (source: Bloomberg), which confirms its strategic orientation to support the development of the capital market despite challenging circumstances. In 2019, in the segment of bond arranging on the foreign market, the Bank, a part of the Erste Group Bank AG, participated in arranging the issue of 10-year bonds of the Republic of Croatia with a nominal amount of EUR 1.5 billion and 10-year bonds of Montenegro with a nominal amount of EUR 500 million.

Custody group

The market value of the assets as of 31 December 2019 reached the record value of HRK 11.7 billion. The upward trend that has been noticeable in recent years has continued, leading to increase of assets value by 15.50% compared to 31 December 2018 when the value of the securities recorded on custody accounts amounted HRK 10.11 billion. During 2019, there was an increase in the number of securities transactions of 7.70%, participating in 4,786 securities transactions in the domestic and foreign markets compared to the previous year when 4,445 securities transactions were settled through the custody accounts of the Bank.

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.
Operational risk definition excludes strategic and reputational risk.
The Bank assesses the reputational risk for assessment purposes due to the strong links with the operational risk (e.g. most of operational risk events have 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

Erste Bank AD Podgorica (EBM), during the year of 2019, continued its best practice obtaining new clients and developing relationships with existing, resulting in a profit before tax in the amount of EUR 13.44 million, which is by 31% higher compared to the previous year. Profit after tax amounted to EUR 12.27 million with return on equity of 14.7%, and return on assets of 2.2%. Total operating income were achieved in the amount of EUR 29.2 million, which is 10% higher compared to 2018.

Net interest income was in the amount of EUR 23.3 million and by 10% higher compared to the previous reporting period. Net interest margin decreased from 5.08% at the end of 2018, to 5.02% at the end of 2019. Net fees and commissions income increased by 15.46% and amounted to EUR 5.5 million. Increase of net fee and commission income is in course of EBM's orientation in increase of non-interest income and increase of number of active clients and services offered to clients.

Risk costs were positive in amount of EUR 1.31 million. Credit risk cost for balance exposures amounted to 0.37% and was positive, lower compared to the end of 2018, when it was 0.06%. NPL coverage was high and at the end of 2019 it amounted to 112%, which represent increase from 105% at the end of 2018. Low level of NPL is result of significant efforts on control of repayments, and also conservative risk approach of the EBM which is adapted to demandable market conditions. Operating costs were recorded in the amount of EUR 16.8 million and compared to the previous year they were higher by 5.2%.

At the end of the year, total assets amounted to EUR 605.07 million which, compared to 2018, is an increase of 16%. Net loans to customers amounted to EUR 386.6 million and were by 20% (EUR 65 million) higher compared to 2018; of which EUR 231.7 million related to retail lending, and EUR 154.9 million to loans extended to corporate entities.

In the retail sector, there was an increase in the gross loan portfolio of EUR 36.49 million or 17,79% compared to the end of 2018. In line with the EBM's strategy, a strong sales campaign of standard retail products continued, which contributed to the realisation of EUR 98.62 million through 13,385 credit-line arrangements. In this part EUR 20.82 million (26.77%) growth in placements was achieved compared to 2018. The biggest share in the total placement is related to cash loans (78.48%), housing loans (15.5%), overdrafts and credit cards (4%) mortgage loans and loans for adaptation (1.77%). The retail loan market share was 17.69%, which represents increase of 1.39 pp compared to previous year.

In SME/Corporate sector, credit portfolio recorded an increase of EUR 29.12 million (21.8%) compared to the end of 2018. In private companies, the EBM recorded growth of net loans by EUR 23.1 million (22.03%) which increases market share from 10.47% to 12.33% (or 1.86 pp), representing 63% of net market growth. Despite the downward trend in interest rates on the market, interest income increased by 10.6%.

In 2019, total customer deposits increased by EUR 48.1 million and amounted to EUR 403.8 million at the end of 2019, of which retail deposits accounted for EUR 196.4 million, and deposits of legal entities for EUR 207.4 million.

This achieved result can be considered even more important having in mind that it was achieved in the period characterized by still complex business operations at the local level. The attention was paid to the enhancement of customer database and service quality improvement. At the end of 2019, EBM operated through the network of 17 branch offices across Montenegro and served more than 106 thousand clients. EBM will continue to targeted develop products and services, analyzing the market needs and potentials, in order to provide its customers with a proper support. The focus will be placed on the enhanced customer database and increased satisfaction of customers in parallel with the care for the welfare of employees, community and the shareholders.

IX. Erste Card Club d.o.o.

Activities in 2019

During 2019, Erste Card Club Group (Erste Card Club Group is comprised of Erste Card Club d.o.o. (hereafter ECC), Erste Card d.o.o. (hereafter EC SLO) and FC Diners Club International Mak d.o.o.e.l Skopje (hereafter DC MAK), hereafter jointly referred to as ECC Group) achieved positive business results. During 2019, ECC celebrated 50 years of business in Croatia, and received an award for the best large franchise in EMEA region, ‘Best Large Franchise 2018’.

The continuation of the business digitization process had a positive impact on the new card sales resulting with total card sales to over 70,000 cards. For instance, in October 2019, the biggest monthly increase of new Diners Club cards in 50 years of business on the Croatian market was recorded - over 6,500 new cards were sold. In order to comply with the PSD2 directive, ECC started issuing new Diners Club, Visa and Mastercard chip cards, which also provides contactless payments.

In order to further improve the user experience, a new rewards program was introduced, named D Club, alongside Diners Club Gold card. In order to provide even more modern service quality to those clients who travel regularly, the DC Travel agency was entirely sold to one of the fastest-growing travel agencies in the region BTravel. Also, the development of the ECC mobile App has been continued. The app have been recognized and downloaded by more than 70,000 users.

Upon completion of the PCI DSS certification process, the PCI Security Council issued a certificate to ECC, which confirmed the company's compliance with high international security standards and payment systems.

The year 2019 was prominent for EC SLO because of a company’s change in management, where Mladen Mirko Tepuš was replaced with Tanja Piškur, whose expertise consists of membership sales and network sales, marketing, communication and human resources.

Operating overview

Credit cards

ECC total number of credit cards as of 31 December 2019 amounts to 418,882 or 9.5% YoY. New sales of credit cards in 2019, influenced by continued increasing trend in sales, reached 70,681 credit cards (2018: 47,943). As a result of positive trends, market share in credit cards increased and on 30 September 2019 amounted to 23.48% (+128 bps vs YE 2018). EC SLO total number of credit cards as of 31 December 2019 amounts to 73,912 with increase of 4%, while DC MAK total number of credit cards as of 31 December 2019 amounts to 15,577 cards with a decrease of 0.4% YoY.

Card volumes

Total ECC issuing volume in 2019 increased by 9.3% YoY and amounted to HRK 7,799 million, with market share of 25.53% (197 bps compared to third quarter 2018). Total ECC acquiring volume increased by 17.9% YoY with market share of 15.33% (+83 bps compared to third quarter 2018). Total number of ECC's EFT POS devices amounted to 19,739 as of 31 December 2019. Market share of EFT POS network increased to 17.56% as of 30 September 2019 (+49 bps vs YE 2018). Total number of ECC transactions in 2019 exceeded 54 million with an increase of 14.8% compared to 2018.

EC SLO total volume amounted to EUR 177.3 million in 2019 with a growth of 6.2% YoY, while the total number of transactions amounted to 2.4 million with an increase of 6.1% YoY. DC MAK total volume amounted to EUR 25.3 million with a decrease of 6.2% YoY, while the total number of transactions amounted to 0.5 million with a decrease of 6.7% YoY.

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

Financial overview

Consolidated net profit amount to HRK 151.3 million with a decrease of 20% compared to 2018. The decrease is a result of net profit level normalization after positive effects of released risk provisions in previous year. More notable one-off effects on net profit in 2019 refer to income from NPL sale and income from operational risk insurance policy collection.

Operating result amounted to HRK 156.3 million in 2019 with an increase of 3.7% YoY as a result of acquiring volume growth, especially achieved on portfolio of Diners non-interest bearing instalments and acquiring volume of Visa and Mastercard cards. Implementation of IFRS 15 changed revenue structure; part of non-interest bearing instalments income in amount of HRK 12.3 million is recognized as interest income in 2019. Merchant service commissions have been under market pressure since 2015 as a result of the introduction of the IF regulations, particularly in the VMC portfolio, whose trend was compensated by higher acquiring volume. Regulatory changes of decreasing interest rates also add additional pressure on operating result. During 2019, ECC sold non-performing receivables in total amount of HRK 112.5 million which supported trend of lowering non-performing loans, along with increased NPL inflow. The NPL ratio decreased and amounted to 8.2% in 2019 (10.0% 2018.)

Consolidated net interest income amounted to HRK 170.2 million with increase of 0.1% YoY. Loan repayments of HRK 100 million and EUR 10 million resulted with decreasing interest expense. Interest income is under pressure from decreasing of regular and penalty interest income according to regulatory changes of decreasing interest rates and decrease of cash advance income.

Consolidated net fee and commission income amounted to HRK 256.1 million representing an increase of 11.5% compared to 2018.

Consolidated risk provisions in 2019 total HRK 21.9 million which is HRK 42.9 million lower compared to 2018. Furthermore, non-performing loans coverage ratio is stable and amounts to 84.4%.

Net trading result amounts to HRK 6.1 million in 2019 (HRK 6.0 million in 2018); includes also impairment of DC BH shareholdings in amount of HRK -2.3 million according to conducted impairment test and sale of DC Travel shareholdings with effect of HRK -0.2 million. During 2019 investment in funds is fully directed to EAM Bond Adriatic fund with average annual yield of 4.0% in 2019. (0.7% in 2018).

Consolidated general administrative expenses amount to HRK 276.1 million in 2019 with an increase of 8.4% YoY, while **other operating result** in 2019 amount to HRK 16.9 million and is affected by income from operational risk insurance policy collection.

Balance sheet

Total ECC consolidated assets are stable and amount to HRK 3,185 million as of 31 December 2019, representing an increase of 0.7% compared to 2018. Loans and advances to customers and credit institutions amounted to HRK 2,846 million with an increase of 1% YoY as a result of significant growth achieved on non-interest bearing instalments portfolio of 27.5% along with a sale of non-performing receivables in total amount of HRK 112.5 million. Risk provisions amounted to HRK 177 million which decreased by 31.4% YoY as a result of non-performing receivables sale. The EUR 10 million bonds matured in November 2019. Consolidated liabilities to credit institutions as of 31 December 2019 amounted to HRK 1,190 million with a decrease of 12.5% YoY due to loan repayments in the amounts of HRK 100 million in January 2019 and EUR 10 million in June 2019. Total equity amounted to HRK 1,171 million in 2019 which is an increase of 8.8% YoY with dividend pay-out of HRK 50 million.

X. Erste Factoring d.o.o.

In 2019, Erste Factoring maintained its leading position in the market and at the end of the year reported a positive business result. After a negative result reported in 2018 as a result of value adjustments associated with the Agrokor Group, 2019 was more stable and ended with a positive result.

According to the data of the Croatian Financial Services Supervisory Agency, on 3 September 2019, Erste Factoring accounted for 61% of total market assets, representing an increase in comparison to the last year.

Business results in 2019

After-tax profit was HRK 4.2 million, while in 2018, a loss of HRK 98.8 million was reported. The reported profit is the result of lower costs of value adjustments compared to 2018. The operating result decreased by HRK -11 million (-80%) compared to the previous year, due to a decrease in net interest income (in 2018 HRK 30.8 million; in 2019 HRK 18.3 million). The realized decrease in net interest income in the amount of HRK 12.4 million (-40%) is the result of a decline in client interest income. In addition, the decrease in the average interest margin (in 2018 4.34%; in 2019 2.41%) had an impact on the decline in net interest income due to market pressures. The company's loan liabilities amounted to EUR 75 million and HRK 270 million at the end of 2019 compared to 2018, which represents an increase of HRK 80 million as a result of an additional loan liability.

In 2017, the company faced a serious deterioration in portfolio quality caused by the Agrokor Group default, and this event had a significant impact on the 2018 and 2019 financial years. The demand for factoring continues to exist and Erste Factoring will strive to secure as well as further improve its current position as a market leader.

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

Operational business overview for 2019

Newly concluded operating lease contracts

Erste Leasing concluded 7,430 leasing contracts, which is a 5.6% increase when compared to 2018, when 6,952 contracts were concluded.

On 31 December 2019, the total value of newly concluded operating lease contracts amounted to HRK 84,1 million, which is a 3,3% decrease when compared to the same period last year. On 31 December 2019, the total value of newly concluded financial lease contracts amounted to HRK 1,467 million, which is a 13.5% increase when compared to 2018. Erste Leasing was ranked third on the market by value of newly concluded contracts with a market share of 15.49% by the latest available data from HANFA.

Market share by value of assets

On 31 December 2019, Erste Leasing's value of assets amounted to HRK 2,900 million, which is a 13.3% increase when compared to 2018. The market share amounts to 13.4% (Ibid), which is a slight decrease when compared to 30 September 2018 (13.5%).

Financial overview of business in 2019

Financial result in 2019

Net profit for 2019 amounted to HRK 39.9 million, which represents a decrease of 11.3% when compared to 2018, mostly due to exchange rate differences in 2019 and the decrease of profit from operating lease, as well as the increase in net interest income.

- The operating result for 2019 amounted to HRK 52.1 million, which is a HRK 12.2 million decrease (18.9%) when compared to 2018.
- Net interest income amounted to HRK 72 million, which is a 12.3% increase when compared to 2018, when it amounted to HRK 64.2 million.
- Interest income mostly relates to interest from financial lease, which have increased by 6.2% when compared to 2018, to HRK 102.8 million, as a result of finance lease volume increase. Interest expenses decreased by 6.7%, or HRK 1.9 million, due to reduced costs of financing sources. Operating leasing income amounted to HRK 96.2 million, which is a 17.7% decrease when compared to 2018 due to reductions of operating lease in the portfolio.
- Net trading result mostly relates to exchange rate differences, an in 2019 it amounted to HRK -0.1 million, while in 2018 it amounted to HRK 9.9 million.
- Other administrative costs in 2019 amounted to HRK 8.5 million, which is a 1.1% decrease when compared to 2018.
- Depreciation amounted to HRK 80.9 million, which is a 16.7% decrease when compared to 2018, due to decrease of operating lease in the portfolio.
- In 2019, impairment result amounted to HRK -1.18 million, with NPL coverage of 68.1% (2018: 62.8%). NPL's have decreased from 2018's HRK 68 million to HRK 63.9 million in 2019 due to successful NPL collection.

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

Assets, liabilities and equity

As of 31 December 2019, Erste Leasing's total assets amounted to HRK 2,900 million, up by 13.3% when compared to 2018.

- Financial lease receivables and other receivables amounted to HRK 2,459 million, with a share of 84.8% in total assets, which is a 17.9% increase when compared to 2018 due to a volume increase of new financing in financial leasing.
- Risk provisions amounted to HRK 43.5 million, which is a 1.9% increase when compared to 2018, due to new reservations.
- Tangible assets mainly relate to assets under operating lease, and amounts to HRK 337.7 million, with a share of 11.6% in total assets. This is a decrease of 11% when compared to 2018, caused by decreasing share of operating lease in total portfolio.

As of 31 December 2019, total liabilities to credit institutions and customers amounted to HRK 2,408 million, an 83% share in total liabilities and equity. This is an increase of HRK 336.6 million when compared to the year before, mainly in liabilities to credit institutions (HRK 323.2 million) due to new credit lines needed to finance new business. Liabilities towards customers experienced an increase amounting to HRK 13.4 million. Other financial liabilities amounted to HRK 40.0 million (1.4% from total liabilities) and refer to received guarantees for operating lease. Other financial liabilities are down by 37.1% when compared to 2018. Other liabilities amounted to HRK 78.3 million, with a 2.7% share in total liabilities and equity, which is a 10% decrease when compared to 2018, and they mostly refer to received advanced payments for operating leasing, which amounted to HRK 36.5 million.

Total equity for 2019 amounted to HRK 372.9 million which is a 10.5% increase when compared to 2018, due to the attribution of last year's earnings to retained earnings.

Non-financial reporting

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

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

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

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

EBC's efforts in this segment are aided by a commitment to transparent and open communication with the media as mediators between us and the general public. At the same time, these efforts were reflected in the advertising campaign 'Believe in yourself', through which EBC aims to promote positive social and economic values, integration, inclusion and fellowship of all individuals in the society, regardless of age, gender, ethnicity, religious or political affiliation, sexual orientation or marital status.

Implementation of the obligation of non-financial reporting

As already stated, Directive 2014/95/EU, which entered into the Croatian legislation at the end of 2016, stipulates the obligation of non-financial reporting for all companies with more than 500 employees. In this respect, the non-financial report of EBC was issued as part of the Annual Report.
EBC's non-financial report has been prepared in accordance with the Global Reporting Initiative (GRI standard: core option) Guidelines. As a minimum, the report covers the business, social and environmental responsibility of EBC.

Sustainable development goals

The Sustainable Development Goals are also known as the Global Goals and were adopted by the United Nations in 2015. There are 17 in total, and by fulfilling these goals, the society will achieve a more sustainable living and a better life for each individual, as well as peace and prosperity for all. Precisely prosperity for the society and for each individual is one of the EBC's goals, which it is trying to achieve through its operations.
Basically, Erste Bank Croatia, as well as Erste Group, supports all 17 Sustainable Development Goals. Taking into account its business form and its impact on the society, EBC can contribute by its operation and by achieving six goals:

1. Good health and well-being (SDG 3)
2. Quality education (SDG 4)
3. Gender equality (SDG 5)
4. Decent work and economic growth (SDG 8)
5. Reducing inequalities (SDG 10)
6. Climate action (SDG 13)

Analysis of material topics

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

Some of the topics, such as the topic of Anti-Corruption and Financial Literacy, are relevant to several interested groups of the public, but for better text organisation, they are categorised as one unit.

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

Clients

Responsibility in business (SDG 8)

Responsibility in conducting business, especially when it comes to the treatment of clients, represents a fundamental characteristic of EBC's business operations which is reflected in offering special products and services aimed at different groups of clients in response to their current and future needs and living circumstances. Also, EBC has established and implements the fundamental principles of socially responsible business as well as policies and guidelines regulating the prevention of corruption, the management of the conflict of interest and the system for handling reported irregularities and whistleblower protection (whistleblowing program).

Client satisfaction (SDG 8)

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

Right to personal data protection

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

Employees

Diversity and equality (SDG 5, 10)

Gender equality is a global issue that prevents peaceful and stable development and progress of humanity. EBC has been working systematically and hard on combating any gender or other inequality in the workplace, and for this reason it adopted the Diversity Charter, in which it undertook to implement the diversity and non-discrimination policy in the workplace and business environment. Apart from that, other regulations have been adopted to combat inequality.

Trainings and development of competences

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

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

The health and well-being of all, but primarily its own employees is one of the sustainable development goals identified by EBC as extremely important. This sustainable development goal is the cornerstone for meeting all other goals. In this respect, EBC provides numerous benefits for its employees, from free annual physical examinations to organised sports activities.

Society

Social banking (SDG 8, 10)

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

Financial literacy (SDG 4, 10)

Acquiring a quality education is one of the fundamental rights of every individual, and precisely knowledge is one of the main drivers that pushes society forward. In 2018 the need for increasing financial literacy in the society was identified, so EBC launched the programme of free workshops and video trainings called the School of Smart Finance. In 2019 more than 5000 people attented these workshops.

Social responsibility

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

Environment

Effective management of environmental impacts (SDG 13)

Unfortunately, people are witnessing increasing environmental disasters that result from the lack of humanity's care for the environment in which it lives. Lately, more and more companies have been introducing operations that are as sustainable as possible and increasing care for the environment. Therefore, Erste Bank also strives for business processes of the highest quality and for environmentally sustainable business in the segment of ecology and environment. When decorating its branch offices, as well as in its daily work and in communication with clients, EBC strives to achieve the highest environmental standards. EBC demands the same from its suppliers.

Suppliers

Responsibility in selecting suppliers (SDG 10,13)

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

Table 1: Analysis of material topics

STAKEHOLDERS	TOPICS OF MATERIAL ANALYSIS	TOPICS OF MATERIAL ANALYSIS ACCORDING TO GRI STANDARDS	CHAPTER IN NON-FINANCIAL REPORT
Clients	Responsibility in operations Client satisfaction Right to personal data protection	Anti-corruption (GRI 205-3) Client satisfaction (additional material topic)	Anti-corruption and tax transparency Products and services Client experience and contact centre, Right to personal data protection
Employees	Diversity and equality Trainings and development of competences Employee work-life balance and health	Diversity and equality (GRI 401-3, 405-1) Trainings and education (GRI 404-1) Safety and health protection, Flexibility in workplace (GRI 403-2)	Diversity and equality and prevention of discrimination Trainings and education Employee work-life balance and health
Society	Social banking Financial literacy Social responsibility	Anti-corruption (GRI 205-3) Financial literacy programme (additional material topic)	Dialogue with the local community School of Smart Finance Sponsorships and donations and humanitarian campaigns
Investors		Economic results	
Environment	Effective management of environmental impacts	Energy (GRI 302-1, 302-4)	Energy Emissions and greenhouse gases Waste management
Suppliers	Responsibility in selecting suppliers	Responsible selection of suppliers (GRI 308-2)	Suppliers' responsibility

Clients

Anticorruption

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

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

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

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

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

EBC continuously educates its employees with the aim of raising awareness of the importance of managing conflicts of interest and preventing corruption, as well as acting in accordance with ethical standards. Furthermore, through training the Bank tries to encourage employees to report irregularities such as: fraudulent actions, violations of procedures and the Bank's legal acts.

In 2019, EBC conducted 39 training sessions which were attended by 725 employees, which represents 25% of the total number of people employed by the Bank. Furthermore, in 2019 EBC received four reports of potential irregularities which did not include instances of corruption.

Clients (continued)

Tax transparency

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

Products and services

Responsibility in conducting business, especially when it comes to the treatment of clients, represents a fundamental characteristic of EBC's business operations which is reflected in offering special products and services aimed at different groups of clients in response to their current and future needs and living circumstances, while also looking after vulnerable groups of clients, offering products customized to meet their specific needs, such as loans with specific terms and lower banking fees for pensioners. The Bank offers a special savings product for children under the Medo Štedo brand which aims to facilitate the first contact between children and the bank and promote the habit of saving money by offering favourable interest rates and a customized rewards programme. In addition, in 2019 EBC strongly focused on young clients for which, after conducting research, it improved several existing options as well as created some new ones. A special current account, Erste Cashtag, was introduced for children and young people under the age of 18 which comes with a debit card, which makes it easier for parents to teach children about financial responsibility and is exempt from the current account fee. In addition, based on the specific needs of young people under the age of 26, Erste Club offer has been expanded and the fee for using all products and services included in it has been abolished.

Clients who have difficulties paying off their loans have at their disposal various methods aimed at helping them pay off a loan, for example, they may opt for a grace period.

In 2019, the Bank continued to actively participate in subsidized residential construction programmes and subsidized housing loans programmes in cooperation with the Croatian Real Estate Agency (APN).

In mid-December 2018 Erste Bank Croatia launched a new innovative mobile app called Keks Pay, available for free on iOS and Android devices, which 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 was developed by EBC's internal start-up established with the aim of developing innovative solutions and business models. Since it was launched, the app has gained nearly 95,000 users, 75% of whom are clients of other banks, while the remaining 25% are EBC's clients. The app is continuously upgraded with new functionalities: for example, in late 2019 the app was upgraded to allow paying for parking in more than 60 Croatian cities, free of additional charges or fees for users. This simple app has been created in compliance with the highest security standards.

Clients (continued)

In the SME segment, the Bank continued activities aimed at improving the business model through numerous initiatives and projects which aim to respond to clients' needs and demands. Business support for small entrepreneurs, which offers clients remote advisory services, continued its planned activities in 2019 which focused on providing financial information and advice to small businesses, in support of financial representatives and offices through participation in joint activities and campaigns, aimed at a personalized approach in recognizing client needs. The goal is to raise client satisfaction through a focused and proactive approach to this group of clients, and through speed, quality and availability of services.

In 2019, the Bank continued implementing existing and securing new financial instruments by signing agreements with domestic and international financial institutions (HAMAG BICRO, HBOR, EIF). Financial instruments which are co-funded by European Structural and Investment Funds (ESIF) come in the form of credit lines, guarantees and guarantee schemes, and are available to micro, small and medium-sized companies with the aim of facilitating access to financing to entrepreneurs.

In order to ensure availability of cheaper sources of financing, in 2019 the Bank continued cooperation with the Croatian Bank for Reconstruction and Development and it also responded to HBOR and EBRD's initiative regarding mutual cooperation on implementing projects under the InvestEU platform in order to leverage shared synergy to create as competitive product as possible within EU's new multiannual financial framework for 2021 to 2027. In addition, the Bank extended its cooperation with the European Investment Bank and the European Investment Fund. On account of its cooperation with EIF on the InnovFin guarantee, EBC was named the most active bank in using this guarantee (75% of total transactions included in the InnovFin guarantee in Croatia).

Furthermore, in 2019 the Bank continued pursuing cooperation with institutions on local markets, entering into or extending business cooperation with counties and local governments through various programmes aimed at supporting SMEs and subsidizing housing loans for citizens.

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

In line with regulations, in mid-2019 EBC opened up its online interface and allowed private and business clients to use other payment service providers' mobile and web apps for managing bank accounts and initiating payment transactions.

EBC's website which has contributed to developing new digital services for business clients should also be mentioned. The website allows clients to submit various requests and questions, and more easily access information online, customized to meet their real needs.

Client experience and contact centre

Erste Bank Croatia places great attention on client experience and aims to be a leading bank in terms of consumer protection and excellent customer experience. The Bank's strategic goal is to provide excellent, simple, accurate, transparent and timely service. In order to achieve this, the Bank operates beyond the framework of what is legally prescribed and, for example, EBC enables the transparent and simple submission and resolution of complaints, with almost 80% of complaints solved within three working days.

Clients (continued)

Therefore, the client experience is managed systematically and continuously, through a process defined in five steps:

- By listening to the client's voice
- By implementing service quality standard
- By educating employees
- By measuring client's experience, and
- By identifying areas for improvement and defining an action plan of improvement.

The purpose of measuring client experience is to create an overall picture of client satisfaction with the provided service, including the overall treatment of the Bank's employees towards the clients. The measuring investigates the area of satisfaction with the Bank's products and processes, as well as the knowledge, expertise, procedures and conduct of employees towards the clients. The measuring results provide specific feedback and the opportunity to improve a client's experience in all contact points with the Bank.

The sources of clients' opinions come from several sides and from several perspectives. There is: *mystery shopping*, which determines whether employees behave and act in accordance with the pre-defined standards and procedures; client satisfaction surveys, which examine client's satisfaction with the provided service or contracted product (the sample is more than 30,000 respondents per year), and clients' complaints, which are collected and analysed on a monthly and quarterly basis in various categories.

All these measurements are carried out continuously, the results are regularly analysed and reported to the executives, and action plans for the improvements are made. At the bank level, the Committee on Service Quality and Client Experience also operates and its permanent members are the Management Board and directors of the second line of management from those sectors that directly communicate with clients, as well as other sectors that play an important or key role in providing services to the clients. The Committee meets four times a year to determine the service quality goals and monitor the service quality and decide on the priorities for improvement.

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

Changes in client 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, which is why the network has gradually transformed. After four branch offices were redesigned and put into operation in 2018 to place the client and the Bank's advisory service in focus, redesign was started on four more of them in 2019. This kind of branch office work model, which is characterised by both visual change and change in approach to work, is aimed at changing the service model in retail business. The plan is to continue the redesign of branch offices according to the new concept.

It is also important to emphasise that EBC's Contact Service is available to clients 24 hours a day through multiple channels, so that obtaining information would be easier any moment and the right to a complain would be enabled.

EBC's long-term focus on excellent clients experience in all contact points of clients with the Bank has also been recognised by clients, as is shown in the CXI (Customer Experience Index) results, which show long-term growing trend, with Erste Bank being the first in the market in all client segments.

Clients (continued)

Right to personal data protection

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

a) **GDPR** (General Data Protection Regulation)

On 25 May 2018, all EU member states began implementing the General Data Protection Regulation (GDPR) which provided added value to EBC as it allowed the Bank to get closer to its clients by emphasizing its transparency, using this legal framework as an additional opportunity and motivation for raising the security level of the overall system of security, including the protection of personal data of clients and employees. GDPR 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 technological and organizational measures in order to protect the personal information of its clients, employees and associates. EBC is aware of how important personal information is to every individual.

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

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

EBC continuously renews the PCI/DSS certificate. This standard confirms that the Bank's operations are in compliance with this high quality international payment system standard, which requires continuous investment in technology and business processes with the aim of ensuring security for the clients and their sensitive card data. Information security policy, the process of handling data and computer network structures are just some of the twelve areas of strict requirements that companies must meet in order to ensure data protection. In 2019 the Bank successfully completed the recertification process for the sixth consecutive time, confirming that its business processes are in compliance with PCI/DSS standards.

Employees

The goal of the Bank is to be the best bank in Croatia that cares about the safety of its clients and provides products and services of the highest quality, while taking care of the well-being of its employees, shareholders and the community.

The individuality of each employee is appreciated and respected, as well as the fact that they enrich the organisation with their diversity. Therefore, EBC strives to provide its employees with a motivating working environment by caring about all elements of well-being: through career, i.e. a meaningful and purposeful job, through intellectual progress and opportunities to acquire new knowledge and skills, through good and healthy relationships, economic security and stability, and ultimately care for one's own health. Also, special attention is given to gender equality and reduction of inequality, ensuring quality working conditions and social dialogue, preventing human rights violations and discrimination, and striving for maximum transparency and dialogue with the local community.

Diversity and gender equality and prevention of discrimination

Erste Bank Croatia has a total of 2,513 employees, of whom 1,833 are women, while 680 are men. Employees aged 30 to 50 are predominant.

Table 2: Employee structure

TOTAL		< 30 YEARS OF AGE		30-50 YEARS OF AGE		>50 YEARS OF AGE	
women	**men**	**number**	**%**	**number**	**%**	**number**	**%**
1,833	**680**	372	15%	1,792	71%	346	14%

Women account for 72.9% of the employees and the remaining 27.1% are men. Overall, the percentage of women in managing positions is increasing slightly through 2019 to 64.6% from 62.1% in the previous year. When it comes to top management positions, women occupy 28% of these positions, while their share in 2018 was 29.2%. In middle management positions, their share increased from 61.9% at the end of 2018 to 63.0% at the end of last year. The average age of the employees in the company is 39, while the average age of employees in management positions is slightly higher and is 44.

Table 3: Structure of managing bodies

SUPERVISORY BOARD	**women**	**men**			
	29%	71%			
MANAGEMENT BOARD	**women**	**men**	**<30**	**30-50**	**50>**
	20%	80%	0%	0%	100%
B-1	**women**	**men**			
	28%	72%			
B-2, B-3, B-4	63%	37%			
Total Top mgmt	27%	73%			

Employees (continued)

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

Special attention is paid to preventing discrimination in the recruitment and selection process – EBC's calls are open to applications from all interested candidates who, according to their competences and experience, meet the conditions of the workplace, regardless of gender, age, nationality, etc. The Bank is working on raising awareness of unconscious discrimination with the managers so that they could make quality and impartial decisions regarding the selection of candidates.

In early May 2017, the ESB Group's Diversity and Inclusion Policy, available in Croatian and English, was adopted. It regulates the principles of diversity and inclusion with which the ECB Group undertakes to comply. Erste Bank responds to a variety of initiatives, panels and lectures on diversity and actively promotes it at all professional conventions outside the bank.

Last year the Policy was revised in the part related to the senior management structure and a target of 35% representation of women in top management of the ESB Group was defined. The focus of the strategy for achieving this goal is on developing a corporate culture and career management tools that support all employees regardless of gender. Efforts to create a work environment that is flexible and allows achieving work-life balance will be continued.

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

With regard to the said principles, several activities were initiated in 2019 to support the respect for diversity in the organisation. A workshop called #razlicitoplavi for raising awareness of stereotypes and prejudices has been launched and the Bank's management and around 500 employees attended it throughout 2019. The workshop has been included in the HR catalogue of development activities and its implementation will continue next year. In addition, training on management/collaboration in multigenerational teams for managers and employees was organised.

In addition to trainings, diversity communication has been intensified through thematic articles on the intranet, and there are ongoing benefits that support diverse groups of employees and contribute to the balance of business and private life.
In 2019, no cases of discrimination were reported.

Diversity Charter

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

Employees (continued)

The Croatian Business Council for Sustainable Development is an organisation promoting the implementation of CSR in Croatia, and the Charter serves as a contribution to social development and the promotion of equal opportunities for all social groups. During 2019, in cooperation with the Business Council for Sustainable Development, EBC became involved in trainings and initiatives related to promoting diversity and is an active member of the network of experts in this field at the European Union level.

Code of ethics

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

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

In 2018 EBC launched ethical workshops for target employee groups where the Bank relates guidelines from the Code of Conduct to actual challenges and situations, and promotes positive behaviours. EBC shall continue offering these workshops in 2019 as well. Workshops and lectures are a mandatory part of educational programmes for certain groups of employees (e.g. new employees, newly appointed managers, sales employees...), and modules for free application of all interested were organised. This way around 400 employees have become familiar with the Code of Conduct in 2019.

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.

Roza

The ROZA programme (Cro. *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.

Employees (continued)

Vezica

As an additional recruitment channel, EBC continued with 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 EBC choses specific IT positions for which the Bank is in shortage and existing employees are rewarded if they proactively recommend a candidate for employment in the Bank. In this way it is ensured that existing employees become promoters of Erste Bank Croatia as well as the selection of candidates who might not have applied through a standard job ad.

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 2019, when employees had the opportunity to discuss last year’s current topics with the Board.

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

The Bank continually works on improving the cooperation with employee representatives so that this open communication channel can also contribute to the growth and development of corporate culture, the organisation as a whole, and all its employees. This is achieved through regular monthly meetings, an open door policy, and quarterly meetings with the Management Board and the Workers’ Council.

In 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.

Blue elephant

This corporate culture project was launched with the purpose of actively managing ESB’s corporate culture. It is a common denominator for all activities, values, and behaviours through which corporate culture is defined and supported. The name and identity of 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.

Employees (continued)

The concept, vision and mission of Blue Elephant are defined through the following segments of corporate business and employee involvement:

1. Employing a particular ('right') 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, promoting and celebrating success, having credibility;
4. Consequence management
   - Communicating good and bad things/segments in a timely manner and assuming responsibility;
5. Innovativeness
   - Dedicating time and resources to the development of new ideas and innovativeness in employees

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

Blue Elephant goals:

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

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, 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.

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

In 2019 EBC 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.

Special emphasis was placed on the subject of ethical business, which is important to us both internally and in relation to external clients, and on fostering the appreciation of diversity and awareness of unconscious bias.

Employees (continued)

Training and education

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

Table 4: Number of hours and average number of hours of training at Erste Bank

	WOMEN	MEN	MANAGERS	EMPLOYEES
Number of hours	73,532	25,160	12,208	84,388
Average number of hours	40	37	113	36

The Bank believes that a combined approach and life-long learning are the optimal learning methods. The Bank therefore offers a variety of opportunities and types of educational programmes:

- Trainings, workshops, seminars
- Participation in conferences
- Internal knowledge transfer
- Mentorship
- Coaching
- Rotations
- E-learning
- Project work, etc.

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

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

Competences of the Future

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

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

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

Employees (continued)

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

Competence quarter

Trainings related to the key company training model are offered in the Competence Quarter format, which gives employees an opportunity to apply for trainings for individual competences and introduces them to a different competence each quarter. In addition to this, since the intention is to offer different training formats to our employees, short 90-minute trainings (” Espresso Trainings”) were introduced, offering trainings in specific skills such as feedback, SMART goals etc., depending on the current topic in the performance management cycle.

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 EBC’s 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 EBC is still making very intensive use of the internal knowledge database and internal trainers.
Compared to previous years, the average number of training days per active employee has increased and was 5.08 in 2019.

Table 5: Average number of training days per active employee

2017	2018	2019
4.89	4.17	5.08

Employee programmes

In 2019, due to business line needs, development of various tailor-made programmes for specific groups of employees has been continued:

- *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,
- *HR refresh* – a programme for line managers related to current issues and practices managers encounter in their everyday operational staff management,
- *E-Leadership Academy* – programme for top manager, for the development of modern leadership skills and adoption of new trends and strategic competences
- *Specific targeted programmes for individual organisational parts, depending on established development needs*
- *Programmes for future pensioners* – instructions for the formal part of retirement and preparation for post-employment challenges
- *Programmes for mothers coming back from maternity leave* – on the topic of organising private and business life

Employees (continued)

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

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

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

A special emphasis is also placed on identifying and developing talents, i.e. employees who show high potential. International programmes are organised for them at Erste Holding level, as well as at the local level.

Development programmes are organised in cooperation with local and international educational institutions and experts, but largely also through internal transfer of knowledge, internal coaches and educators.

Employee work-life balance and health

Starting in August 2019, a new position has been introduced – Employee Benefit and Satisfaction Coordinator. Their task is to integrate, structure and improve the pre-existing activities and initiatives that fall into the area of employee health care, occasional sports, and trainings on physical and mental health and introduce new ones in accordance with the employees' interests.
The common denominator of all activities and initiatives is Well-being. It is in line with the purpose and priorities of the international Erste Group and forms the basis of common value – for the employer, for the employee and for the wider society.

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

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

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

Employees (continued)

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

- Trainings and development programmes focused on professional growth and development, and additional lectures and workshops that are not closely related to business topics;
- Internal job openings available to all;
- Annual awards depending on the results achieved, appropriate payments (Easter bonus, holiday bonus, birth of a child, jubilee awards, gift for a child...), transportation compensation, payments to a closed voluntary pension fund;
- Flexible working hours where the work process allows such organisation of working hours (flexible working hours, shorter Friday, different work start and end schedules, possibility of part-time work);
- Private health insurance policy at a polyclinic with free annual physical examination, with a cheaper price for indicated examinations, 24-hour accident insurance, preventive flu vaccination at the employer's expense;
- Multisport – a co-financed membership fee for using various activities in sports facilities throughout Croatia, participation in sporting events (banking games, humanitarian races, football league, etc.);
- Paid leaves to perform a physical examination, blood donation, relocation, birth of a child, the first day of school and kindergarten, marriage, for educational purposes, corporate volunteering, participation in cultural, sports and other activities organised by the employer, etc.;
- Unpaid leave in other life situations which requires more time devoted to private obligations and solidarity;
- More favourable products of the Bank and associated companies and additional benefits in terms of cheaper prices of services and products made possible through a wide and stable network of external partners in several categories (e.g. culture, sport, health, beauty, entertainment, travel, knowledge...);
- Various initiatives that bring fun into the daily business (marking Ugly Christmas sweater day by wearing Christmas sweaters one day in December, shorter working hours for all women on Women's Day, posting texts on the occasion of Day of Happiness, Day of Kindness, helpful online shopping instructions ahead of Black Friday...)

All health benefits are available equally to all employees.

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

WOMEN		MEN		< 30 YEARS OF AGE		30-50 YEARS OF AGE		>50 YEARS OF AGE	
number	%	number	%	number	%	number	%	number	%
245	**72%**	97	28%	172	50%	162	47%	8	2%

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

WOMEN		MEN		< 30 YEARS OF AGE		30-50 YEARS OF AGE		>50 YEARS OF AGE	
number	%	number	%	number	%	number	%	number	%
136	**8%**	53	8%	43	8%	123	7%	23	7%

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

2018				2019			
WOMEN		MEN		WOMEN		MEN	
number	%	number	%	number	%	number	%
85	73%	-	-	80	84%	3	100%

The total number of those who were due to return from maternity leave in 2019 is less than the total number of returnees in 2018: in 2018, that number was 116, while in 2019 that figure was 98.

Employees (continued)

Safety

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

Occupational safety represents an important segment in everyday operations of the Bank. 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, EBC uses basic, special and approved rules, and the primary legal framework is set through the Occupational Health and Safety Act. Employees within the Bank are trained in different segments. They are trained in theory and practice, depending on the type of training.

The occupational safety system includes the development of a Risk Assessment which includes all risks related to tasks in all job positions at the Bank. Occupational safety also covers fire protection trainings with emphasis on evacuation in case of emergency, which is why in 2019 the Bank focused on training new employees in this area as well as providing evacuation exercises in all offices.

In addition, by maintaining facilities based on SLA (Service Level Agreement within the maintenance agreement) and the legal obligations, direct attention is paid to employees' health through regular cleaning of ventilation ducts, air conditioners, office cleaning and disinfection, DDD measures (disinfection, disinsection, deratisation) and other preventitive space maintenance.

Salaries

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

Society

Social banking

EBC sees entrepreneurship as a positive model for addressing social issues or situations. From the Bank's perspective, supporting a sustainable entrepreneurial project instead of a one-off sponsorship and donation can be a long-term solution. Erste's social banking initiative encourages the financial inclusion of start-up entrepreneurs, non-profit organisations and social entrepreneurs, offering them access to financial products, financial consulting and on-going mentoring tailored to their needs.

In the last three years, during the implementation of the 'Step-by-Step' social banking program, EBC has financially supported more than 150 clients with EUR 3.8 million, and has directly affected the creation of 235 new jobs in Croatia. These are the results of the assessment of the impact of the Social Banking Program of the international Erste Group on the local community in the CEE region, carried out according to the methodology developed in collaboration with the Vienna University of Economics and Business. Apart from that, 88% of the clients who joined the programme confirmed that they were in a better economic situation today.

With its programme of support to entrepreneurs, EBC has so far financed 131 clients in Croatia with EUR 2.5 million in loans, and the most represented activities of supported projects are service activities, transport and agriculture. This is a special group of clients, persons who are self-employed, i.e. start-up entrepreneurs who have started their own business, craft or family farm within the last two years. The aim of the programme is to encourage self-employment and development of entrepreneurship by providing support on the path of designing and realising a business idea. It includes free online trainings on relevant entrepreneurial topics, consulting and financing. Almost 1,000 start-up entrepreneurs have successfully passed the training so far, and 96% of the total number of educated entrepreneurs have received individual support in the form of consulting and mentoring in addition to online education. Apart from that, 62% of the supported clients said that they are more respected by their family and friends today, and 46% are optimistic about the future.

In addition to supporting start-up entrepreneurs, EBC has been implementing the programme of support and funding of non-profit organisations and social entrepreneurs and partnership programmes since the beginning of 2019. 20 non-profit organisations and social entrepreneurs have been funded with EUR 1.3 million during this year. Non-financial support was provided through partnership with EFSE (European Fund for Southeast Europe), Finance in motion, and the ACT Group through the implementation of two projects: 'Akcelerator' (Accelerator) and 'U zoni' (In the zone) for social and impact entrepreneurs. There were more than 150 participants in the training, of which 20 teams were mentored, and five were awarded last year.

Financial literacy

School of Smart Finance

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

Therefore, in 2018, the Bank launched a pilot programme called the School of Smart Finance, and the full implementation of this project started in 2019. The programme includes educational workshops on personal finance management and interactive video training for all interested citizens. The goal of the programme is to encourage as many citizens as possible to acquire knowledge and skills in the field of personal finance management, to reflect on future life and financial goals and consciously manage spending.

Society (continued)

The launch of the programme was preceded by a survey, conducted for the needs of Erste Bank in November 2018 on a sample of slightly over 1,000 people, which showed that 87% of citizens recognise the importance of financial literacy, and 36% of them are willing to invest their time in education. Respondents also said that the financial literacy of citizens and training in this area should be the responsibility of educational institutions (45%) and themselves (42%), followed by families (25%) and banks (17%).

Free educational group workshops in the duration of 120 minutes include interactive and multimedia training on personal finance management, and they are conducted by around 60 specially qualified trainers, employees of Erste Bank from more than 20 Croatian cities. The goals of the workshop are to familiarize the participants with simple tools for day-to-day management of personal finances, to familiarize them with conscious consumer decision making and simple methods of saving habits. The workshops are open to anyone interested, regardless of whether it is a group or an individual, and in the middle of last year, the School of Smart Finance started educating students in primary and secondary schools.

Apart from that, there are 15-minute video trainings available, titled *Personal finance management*, *How to make smarter purchasing decisions*, and *Third pillar in brief*.

During 2019, a total of 300 workshops were held across Croatia, attended by more than 5,000 citizens. Statistics show that around 73% of the participants of personal finance management educational workshops are women, and almost 70% have a college or university degree. Also, almost 85% of participants confirmed that the workshop encouraged them to adopt some good financial habits, such as budgeting, saving, setting financial goals, etc.

Other

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

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

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

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

Society (continued)

Social responsibility

Dialogue with the local community

Erste Bank Croatia endeavours to nurture a two-way communication with the local community and achieve as much transparency as possible.
This is also fostered via partnerships with numerous associations, faculties, exhibitions and presentations at fairs, conferences and conventions throughout Croatia, as exemplified, in part, by the following:

- Golden partnership with AIESEC for the third consecutive year and participation at the AIESEC Business in Practice conference;
- Continuation of the strategic cooperation with the Bjelovar Technical College (preparation of workshops for students on robotization);
- Participation at the 2019 Career Week organised by the Faculty of Organisation and Informatics in Varaždin (a stand at the 'Career *špancir'*, participation in a panel discussion on design and software development, organizing RPA workshop for students, participation in a focus group with teachers on the topic of digital transformation);
- Signing a cooperation agreement with the College of Information Technology in Zagreb;
- 13th 'Student Future Day' organised by the Zagreb School of Economics and Management (ZSEM);
- 2019 '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;
- Job fairs organised by the Croatian Employment Service in several cities;
- Sponsorship of the largest developer conference in Croatia, .debug conference in Zagreb (a booth at the event called Advent na debugu, lectures on the topic of open banking);
- Sponsorship of the Bjelovar IT&tech conference, B:IT.con conference (a lecture to the conference participants on PSD 2 topics).

During 2019, 86 students carried out their traineeship programme at Erste Bank Croatia. 49 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, 'Generalna proba' and 'IT Lab', was continued in 2019. 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 ESB Group in Croatia. Three of these students received scholarships and four continued to work at the Bank.

In addition to these two practice programmes, programme Math Lab intended for students of the Faculty of Science, was implemented. Twelve students participated.

Society (continued)

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 2019, 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 three students during the next five years.

Sponsorships and donations

Through its sponsorship and donation activities, the Bank is involved and actively supports various initiatives and projects that contribute to the development and improvement of the society as a whole, both locally and throughout the Republic of Croatia. During 2019, it supported numerous cultural, scientific, health, educational, sports, and humanitarian projects, and a total of HRK 14.15 million was realised through the programme of sponsorships and donations. Below is a summary of the most important initiatives supported by the Bank through sponsorships or donations:

- around 140 humanitarian projects and institutions
- around 120 educational projects
- around 230 clubs, associations and sports projects
- around 110 cultural and artistic projects and institutions

During 2019, the Bank has traditionally remained the general sponsor of projects such as the humanitarian marathon Homo si teć Rijeka, BOK fest in Bjelovar, which includes theatre performances, music concerts, film screenings, actor exhibitions, and the DOKUart documentary film festival which, along with its regular programme, encourages children and young people from all over Croatia to create their own documentaries. It traditionally sponsors the International Rijeka Carnival, the International Small Scene Theatre in Rijeka and the International Puppet Theatre Festival PIF, which includes a cross-section of the best European, world and regional puppet performances.

The Bank also supports a series of other cultural events, which contribute to the promotion of local customs, culture and tourism such as the traditional Alka Tournament in Sinj, the Kastav, Matulji and Osor music evenings that take place in the summer months, Picokijada manifestation based on the historical events of the city of Đurđevac, the International Lace Festival on Pag, and other traditional manifestations specific to a certain region or city in Croatia.

Through the creative platform Urbanka powered by Erste, various international exhibitions were supported, projects such as the Okolo – artistic interventions in the environment of the city of Zagreb, Grafiti na gradele – an international festival bringing together world-known graffiti artists, Crtani romani šou – comic book festival, Biljke i svirke – a series of concerts in city parks and botanical gardens, and the DA2 film festival dedicated to design, art and architecture. As part of Urbanka, the jubilee 15th Erste fragmenti exhibition was realised. It received over 170 applications from young artists in 2019, works of art were purchased within it and exhibited in Erste business premises and branch offices across Croatia, while scholarships were granted to the best young artists. News in 2019 was the opportunity for all authors of the selected works to present and offer for purchase one additional work at a joint exhibition.

Society (continued)

Also, in order to maintain the continuous contribution to the creation and education of young artists and the accompanying industry outside the competition, a pilot project ‘PITCH’, featuring educational and practical contents for students of artistic professions, was launched within the Erste fragmenti platform. This is a training for students/artists through which they can acquire education on the presentation of artwork, value estimation, organisation of own exhibition, auctions, organisation of sale, etc., and independently perform a simulated curator practice based on exhibited art in the premises of Erste Bank.

As part of our activities aimed at supporting the social community through donations and sponsorships, in 2019 the Bank supported the education of young paediatric surgeons at the Children’s Hospital Zagreb (Klaićeva), supported the Special Hospital for Chronic Diseases of Children in Gornja Bistra, the Children’s Home Nazorova, and the SOS Children’s Village for children without parental care. The Bjelovar General Hospital received support in form of donations for the purchase of a new endoscopy column for gastroscopy and colonoscopy, and the Zadar General Hospital with the aim of improving the quality of service provision. Also, at the end of 2019, a donation was sent to the Rebro Paediatric Oncology Foundation.

As part of a broader strategy that promotes, among other things, the integration, inclusiveness and fellowship of all individuals in society, EBC has supported the activities of the Zagreb Pride parade, the Vox feminae Association, with the aim of empowering individuals through information and education of the society, as well as the activities of the Trans aid Association towards affirmation of the rights of trans, inter and gender variant persons.

Also, EBC has supported various conferences such as CXZG – on user experience development through digital transformation, F2 – Future of Fintech conference on cryptocurrencies, blockchain, disruptors and cybercriminals – technology that manages money today and tomorrow, and the .debug conference – the largest developer conference in Croatia.

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

In addition, EBC promotes the importance of sports projects and sponsorships that emphasise the importance of promoting sports, and especially promoting awareness of the importance of physical activity in children. Two major projects that are focused on this goal are the Erste Plava Liga and Erste rukometna liga Dalmacije (Handball League of Dalmatia).

Erste Plava liga is a project intended for all students in grades 3 to 6 of primary schools in Croatia, and is designed to help children develop an athletic spirit and to encourage them to play sports.
The eighth consecutive competition season was held last year, and the ‘60 minuta KRENI’ campaign involved famous athletes, coaches, educators and institutions to contribute and raise equal opportunities and conditions for conducting daily sixty-minute physical activity for all interested children. In 2019, Erste plava liga competitions included two more cities in addition to the previous ones – Knin and Vukovar, so competitions were held in eight cities in total (apart from those two, Rijeka, Zagreb, Osijek, Makarska, Zadar, Pula), and a total of 3,485 children competed.

Society (continued)

The Erste Handball League is a unique children's handball league intended for primary school students enrolled in grades 2 to 7. EBC wants 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. In the second season of Erste Handball League, Istria was also included along with Dalmatia, and competitions were held in seven cities with a total of eight tournaments (Split, Zadar, Šibenik, Dubrovnik, Labin, Poreč and Pula, and the finals in Split). More than 4,850 children, 34 clubs, 12 sports schools from 21 cities/places and 4 counties participated.

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

Initiatives launched by various sectors of the Bank should also be mentioned. 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 2019, total of HRK 31,190 was donated through the Fund to help the rehabilitation of traumatised children who are victims of domestic violence, and the donation was sent to the Autism Association in Bjelovar.

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 15 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,* is a collection founded in 2004, which includes more than 850 works of art by 127 artists/artist groups from 18 countries, focusing on Eastern, Southeastern and Central Europe. The 84 of these works of art are done by 16 Croatian artists. The collection is complemented with new works of art every year.

Humanitarian campaigns

Erste challenge

For the second consecutive year, in a campaign that lasted from January to December 2019, and as part of it the employees of the entire EBC Group in Croatia undertook to run 100,000 kilometres but ended up exceeding their goal and ran 120,000 kilometres.The amount of HRK 20,000 was divided to two associations: the Croatian Alzheimer's Association and the Breza Youth Association. The five most persistent runners were rewarded with symbolic gifts.

Society (continued)

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. 2019 was the third consecutive year in which employees were allowed to carry out corporate volunteering activities during their working hours, as individuals or in groups.

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 EBC has developed a good cooperation. These are the following:

- Lug Centre for Education
- Maksimir Home for the Elderly
- Trnje nursing home
- Trešnjevka nursing home
- Centre nursing home
- Children's House Borovje in Zagreb
- Volunteering for a socially disadvantaged family from Varaždin

In addition, seven EBC employees have chosen to volunteer individually, working as St. Nicholas at primary schools in Predavac or Čavle, promoting sports for the health of school children. Two employees held trainings for specific target groups, while one volunteered for an association that cared for people with disabilities. In addition to volunteering during working hours, Erste employees also volunteer in their free time too. EBC is particularly proud of an employee who volunteered for 10 days in a nursing home abroad in 2019.

Employees are informed about the volunteering opportunities through the Intranet or they find opportunities in their surroundings, and sometimes help is provided by the Human Resources Sector, which then suggests a place to volunteer and helps with everything needed to keep volunteering going. The number of days of volunteering in 2019 was 103 within working hours, which is similar to the previous year.

Since 2015, EBC has been a signatory to the Charter Recognising Competences Acquired by Volunteering, and since last year the Bank has been a signatory to the Corporate Volunteering Charter. The best acknowledgment of the efforts and engagement of numerous Erste volunteers is the many thanks from various institutions and associations received in 2019.

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 2019.

Environment

In the last few years the subject of environmental protection has become increasingly important for the sustainable development and viability of companies and people. As climate change has started to affect almost every country on every continent and change the way people live and work, the battle for environmental protection has become a global preoccupation. The importance of these topics is evidenced by numerous summits, agreements and initiatives of the world's leading powers in order to reach the best possible solution through unification. The Paris Agreement, signed in 2016, is just one of the examples – it was agreed that all countries would work on preventing the global temperature in the coming years growing by more than 2°C.

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

Managing environmental impacts

In 2017, Erste Bank Croatia adopted an Environmental Policy that aims to contribute to the community in which it operates. Some of the goals EBC is committed to are:
- Protection of natural resources through their responsible use, systematic increase of energy efficiency and compliance with all applicable legal regulations
- Use of recycled paper and continuous reduction of waste paper
- Introduction of a waste sorting system and promotion of responsible waste management among employees
- Reduction of harmful emissions through the selection and use of electricity from renewable energy sources

To achieve its goals, EBC has implemented an environmental management system that complies with the requirements of ISO 14001:2015.

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

The same as in 2018, a yearly external audit was performed by a licenced certification company in 2019 too, to check the functioning of the Environmental Management System according to the international standard ISO 14001: 2015. The Bank has completed all necessary activities to extend the ISO 14001:2015 certificate for another year. Some of EBC's affiliates (Erste Card Club, Erste Leasing and Erste Bank A.D. Podgorica) have done the same successfully.

The Strategic Environmental Objectives for the period 2020 to the end of 2021 were also set last year. Compared to the reference year 2018, they are:
- Reduction in electricity consumption by 12% (2018: 4,363 kWh/FTE)
- Reduction in heat consumption by 7% (2018: 1,657 kWh/FTE)
- Reduction in photocopier paper by 13% (2018: 16.84 reams A4/ FTE)

Based on the Strategic Objectives, the Operational Objectives for 2020 were also defined:
- Keep electricity consumption per FTE on the 2018 level (4,363 kWh/FTE), i.e. save from 0 to 4%
- Keep heat consumption (thermal energy that also includes gas) per FTE on the 2018 level (1,657 kWh/FTE), i.e. save from 0 to 2.3%
- Reduce the photocopier paper consumption per FTE compared to the 2018 level (16.84 reams A4/ FTE) by 4.3%

Environment (continued)

Energy

People need energy for the daily life – both of an individual and the entire economy. In that process, energy needs to be transferred from the initial location to the end user, which of course causes pollution. Monitoring the electricity consumption allows for better management of this segment of sustainable business. Erste Bank Croatia has several initiatives in the area of electricity savings.

When designing branch offices and other business premises, all aspects of environmentally friendly and sustainable business are taken into account, using software and technical solutions to optimise energy consumption, regularly maintain equipment to increase its durability and reduce waste, use energy saving light bulbs and energy saving LED panels for advertisements, etc.

The Bank wants to encourage its clients to think about energy efficiency and, consequently, to act in that direction. Thus, the Bank has designed and offered several products for the purpose of financing energy efficiency, the so-called eco loans, both for citizens and companies, which encourage the use of ecological forms of energy, the use of renewable energy sources, energy efficiency, etc., thus further promoting the development of sustainability and energy efficiency in society. For example, for clients who buy, build or renovate properties with A+, A, B, or C energy the Bank grades a lower interest rate than for regular housing loans. In addition, the Bank cooperates with local and international financial institutions to offer more favourable financing conditions for projects in the private and public sectors, including energy efficiency and renewable energy projects. With more favourable financing conditions, the Bank wants to further stimulate investments in segments that contribute to increasing environmental awareness, efficiency and sustainability.

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

In 2019, the installation of sun protection foils was continued. Apart from providing much better working conditions for employees in summer, they reduce the electricity consumption for air conditioning and lighting. The installation of the foils has become the standard for all new branch offices and for those being renovated.

The Bank constantly controls and works to reduce energy consumption, and in order to do this more efficiently, it requires the education of all employees and users of the premises, which was carried out throughout 2019.

Electricity consumption remained at the same level of 4,363 kWh/FTE (4,375 kWh/FTE in 2018), and the explanation for this was the takeover of the server room by ECC and the expansion of the server room in the Zagreb office building. When viewing the same domain (without this extension), the consumption would be at 4,204 kWh/FTE in 2019, i.e. 3.6% less than in 2018. Thermal energy consumption was decreased by 7.9% (from 1,657 kWh/FTE to 1,526 kWh/FTE).

Environment (continued)

Consumption analysis is calculated based on monthly consumption bills entered into the cr360 software program.

Table 9: Consumption of electric and thermal energy

		2018	2019
FTE	*number*	2,368	2,450
Carpool Consumption total (Converted to kWh)	*kWh*	2,138,535	2,040,798
Electricity total consumption (with ATM and own electricity production)	*kWh*	10,327,069	10,719,455
Heating, warm water and district cooling total consumption	*kWh*	3,923,290	3,738,290
Total Diesel Consumption for electricity generation	*kWh diesel*	9,159	5,088

Emissions

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

Increased energy consumption also leads to higher CO_2 consumption. This is why EBC renewed its contract with HEP for the delivery of electricity that is 100% from renewable sources in 2019, which means that the Bank will continue to achieve very low CO_2 emissions into the environment.

Waste separation and reduction of unselected municipal waste

It has been identified that the Bank generates the most waste in the area of paper consumption. Therefore, ecological, recycled printing paper is used throughout Erste Bank in Croatia, and this is planned in the future too. Also, due to the environmental aspect, but also easier use, the Bank's clients are encouraged to do business online as much as possible. Therefore, digital submission of applications for the Bank's products is provided, and the General Terms and Conditions are available in the branches on tablets instead of on paper. Posters in the branches have largely been replaced by digital displays wherever possible. Instead of the classic notices sent by mail to the home address, EBC strives to send emails to clients as much as possible, and individual campaigns for switching from paper monthly statements to electronic ones are often ran. Also, centrally operated digital filing folders are used to save paper.

The Bank constantly controls and works to reduce the consumption of photocopier paper at the Bank level, and trainings have been organised for this purpose. Compared to 2018, the consumption of copier paper decreased by almost 15% (14.8%).

Table 10: Consumption of photocopier paper

	2018	2019
Ream/FTE s	16.84	14.35

Environment (continued)

In order to reduce the negative impact on the environment in the future and further reduce the amount of unselected municipal waste, the use of linen towels was introduced in late 2018 instead of paper towels for wiping hands in sanitary facilities. As part of this, employee education was organised.
A year after the introduction, a financial saving of 27.81% was achieved, but this also eliminated the largest amount of unselected waste that the Bank produces.

Also, in 2018, tanks for the selective separation of waste were installed throughout the entire Croatian business network, and as a result, prescribed procedures were introduced and employee education was carried out. For the time being, paper, plastic, metal and glass are separated, and at the end of 2019, storage tanks for waste batteries have been set up in administrative buildings in Zagreb, Rijeka and Bjelovar.

Other activities

In 2019, the Bank continued the praiseworthy ‘Project for PET’, which was previously launched at the initiative of the employees. This is a project of organised collection of plastic packaging in Erste business centres in Zagreb and in Bjelovar, which is carried out in cooperation with the Association for the Promotion of Inclusion. Bank employees collect plastic bottles from beverages, which are taken by users of the association for recycling, and the raised funds are used for financing a part of their needs. By organising the collection of plastic packaging, EBC shows double support for the community in which it operates. In addition to recycling large quantities of plastic bottles, which is in itself an environmentally beneficial act, the Bank helps launch an entrepreneurial activity for the socially disadvantaged population – people with intellectual disabilities who are otherwise very difficultly employable. In addition, the reduction of the amount of plastic waste in the form of PET water bottles at the level of the entire bank network is achieved by introducing a device for the production of drinking water obtained from the water supply network by reverse osmosis. The drinking water available to employees is thus not in plastic packaging. Additionally, buying more glass cups in kitchenettes aims to reduce the use of disposable plastic water cups, at least as far as our employees are concerned.

Also, in the office buildings in Zagreb, Rijeka and Bjelovar, Erste Bank organised an ecological-humanitarian project of collecting plastic caps from PET bottles for the need of raising funds for the Association of Leukaemia and Lymphoma Patients of the Republic of Croatia.

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

The Bank is also a member of the non-governmental organisation Croatia Green Building Council and actively participates in discussions and projects regarding green construction projects, discussions on new trends in the area, etc. Last year Erste Bank received a thank you note from this Association for its exceptional contribution to green construction, sustainable energy, infrastructure and mobility.

Suppliers

Suppliers' responsibility

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

Erste Group Procurement (EGP) is Erste Group's company specialised in procurement. Its main objective is to ensure a transparent and fair procurement and supply and such contracts. Meeting the needs of Erste Group for national and foreign goods and services, delivered in time and in accordance with quality requirements, under the best possible conditions, is the key element.
The suppliers of Erste Group are required to meet the stipulated standards in the fields of business ethics, environmental protection and human rights.

In the fulfilment of the contractual obligations, Erste Group expects the following from the suppliers of materials, equipment and services chosen as partners: respect of national and local laws and regulations, 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. Employees are fully certified with respect to ethical conduct while 90% of suppliers have undergone ethical certification in accordance with EGP standards.

In the process of selecting suppliers at a strategic and operational level, sustainability is also taken into consideration. Along with an initial assessment, suppliers' operations are regularly reviewed, covering the most important or most vulnerable suppliers. The audit questionnaire refers to areas such as: the existence of an environmental management system, participation in the Carbon Disclosure Project (CDS), the existence of written environmental policy, methods of measuring CO2 emissions, the existence of environmental targets, information on fines and penalties for violations of environmental regulations and description of the suppliers' supply chain.
In the case of the procurement of goods, the audit questionnaire is supplemented with questions on potentially hazardous chemicals, product recycling possibilities, end-of-life recovery, and *Energy Star* or similar standards.

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

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

Erste Group also encourages social responsibility through the selection of suppliers and the type of goods and services it uses, including promotional marketing materials. Among other things, Erste Group often chooses products that have an ecological certificate or are the final product of a socially responsible project involving marginalised groups of the society. For example, at the end of each year, Erste Group orders holiday cards from SOS Children's Village Croatia, and not from commercial suppliers, and thus encourages responsible business within the society and the community.

GRI Content Index

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Reference to Annual Report 2019	Comment/Reason for ommission
GRI 102 General Disclosures 2016					
1. Organisational profile					
GRI 102	General Disclosures	102-1	Name of the organisation	2	Erste&Steiermärkische Bank d.d.
GRI 102	General Disclosures	102-2	Activities, brand, products, and services	77	Annual report: General information
GRI 102	General Disclosures	102-3	Location of headquarters	77	Rijeka, Jadranski trg 3a, Republic of Croatia
GRI 102	General Disclosures	102-4	Location of operations	77	General information
GRI 102	General Disclosures	102-5	Ownership	78	General information
GRI 102	General Disclosures	102-6	Markets served	78	General information
GRI 102	General Disclosures	102-8	Information on employees	33	Non-financial report: Employees
GRI 102	General Disclosures	102-9	Suppliers	54	Non-financial report: Suppliers
GRI 102	General Disclosures	102-10	Changes in the supply chain	54	No significant changes
GRI 102	General Disclosures	102-11	Precautionary principles	28	Non-financial report: Code of Conduct of the ESB Group; Statement of Purpose
GRI 102	General Disclosures	102-12	External initiatives	28,50	Non-financial report: Customers, Environment
GRI 102	General Disclosures	102-13	Membership of associations	n.a	Croatian Banking Association, Croatian Chamber of Economy
2. Strategy					
GRI 102	General Disclosures	102-14	Report of the Chairman of the Management Board	3	Report of the Chairman of the Management Board
GRI 102	General Disclosures	102-15	Key impacts, risks and opportunities	27	Non-financial report: Materiality analysis
3. Ethics and integrity					
GRI 102	General Disclosures	102-16	Values, principles, standards, and norms of behaviour	34	Non-financial report: Employees
4. Governance					
GRI 102	General Disclosures	102-18	Governance structure	60	General information: Supervisory Board, Management Board
5. Stakeholders					
GRI 102	General Disclosures	102-40	List of stakeholders	27	Non-financial report: materiality analysis
GRI 102	General Disclosures	102-41	Collective bargaining agreements	33	Non-financial report: Employees
GRI 102	General Disclosures	102-42	Identifying stakeholders	27	Non-financial report: Materiality analysis
GRI 102	General Disclosures	102-43	Approach to stakeholder engagement	27 et seq.	Non-financial report: Materiality analysis
GRI 102	General Disclosures	102-44	Key topics and concerns	27	Non-financial report: Materiality analysis

GRI Content Index (continued)

6. Reporting practice					
GRI 102	General Disclosures	102-46	Defining report content	25 et seq	Non-financial report: Materiality analysis
GRI 102	General Disclosures	102-47	List of material topics	27	Non-financial report: Materiality analysis
GRI 102	General Disclosures	102-49	Changes in reporting	27	Compared to 2018, in 2019 reporting complies with GRI standards (core option)
GRI 102	General Disclosures	102-50	Reporting period	2	From 1.1.2019 to 31.12.2019
GRI 102	General Disclosures	102-51	Date of most recent report	n.a	Annual report for the year ending on 31.12.2018
GRI 102	General Disclosures	102-52	Reporting cycle	2	Annual
GRI 102	General Disclosures	102-54	Claims of reporting in accordance with GRI standards	25	EBC's non-financial report was prepared in accordance with the requirements of the Global Reporting Initiative (GRI standard: core option)
GRI 102	General Disclosures	102-55	GRI content index	55	Non-financial report
GRI 103 Management Approach 2016					
GRI 103	Management Approach	103-1	Explanation of the material topics	25	Non-financial report: Materiality analysis
Material and additional topics					
Material topic: Anti-corruption (GRI 205 Anti-corruption 2016)					
GRI 205	Anti-corruption	205-3	Confirmed incidents of corruption	28	Non-financial report: Anti-corruption. There were no confirmed incidents of corruption in 2019
Material topic: Energy (GRI 302 Energy 2016)					
GRI 302	Energy	302-1	Energy consumption	51-52	Non-financial report: Energy
GRI 302	Energy	302-4	Energy consumption	51-52	Non-financial report: Energy
Material topic: Responsible criteria in the supply chain (GRI 308 Negative environmental impacts in the supply chain and actions taken 2016)					
GRI 308	Negative impact on the environment by the suppliers	308-2	Negative impact on the environment by the suppliers	54	Non-fin Suppliers Energy
Material topic: Health and work-life balance (GRI 401 Employment 2016)					
GRI 401	Employees	401-1	New employees	41	Non-financial report: Employees. Total number of new employees: 342; Fluctuation: 189
GRI 401	Employees	401-3	Parental leave	41	Non-financial report: Employees
Material topic: Health and work-life balance (GRI 403 Occupational Health and Safety 2016)					
GRI 403	Absence	403-2	Rate of absence	n.a	Average number of days of sick leave taken is five.

GRI Content Index (continued)

Material topic: Training and education (GRI 404 Training and education 2016)					
GRI 404					
	Training and education	404-1	Number of hours of training	38	Non-financial report: Employees. Women: 40 hours; men: 37 hours
Material topic: Diversity and equality (GRI 405 Diversity and Equal Opprotunity 2016)					
GRI 405	Diversity of managerial bodies and employees	405-1	Structure of managerial bodies and employees	33	Non-financial report: Employees
Material topic: Diversity and equality (GRI 406 Non-discrimination 2016)					
GRI 406					
	Anti-discrimination	406-1	Total number of incidents of discrimination	n.a	There were no incidents of discrimination recorded in 2019
Material topic: Customer satisfaction					
Information on customer satisfaction				31	Non-financial report: Clients
Material topic: Financial literacy					
Information on activities implemented in the area of raising financial literacy				43-44	Non-financial report: Society

Corporate Governance Statement

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

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

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

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

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

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

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

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

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

Corporate Governance Statement (continued)

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

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

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

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

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

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

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

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

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

On June 17, 2019 the Bank held its regular General Meeting at which a decision on Profit Distribution for the year 2018 was made. Net profit for 2018 amounts HRK 829,720,530.99 was distributed for the retained earnings in the amount of HRK 540,989,555.99 and for the shareholders' dividend in the amount of HRK 288,730,975.00. Total amount of dividend represents 34.80% of Erste&Steiermärkische Bank d.d. net profit, and the dividend was determined in the amount of 17.00% of the nominal value of a share, amounting to HRK 17.00 per share.

Corporate Governance Statement (continued)

The payment of dividend to the shareholder Erste Group Bank was effectuated as of June 27, 2019 and to the shareholder Steiermärkische Bank und Sparkassen AG was effectuated as of June 28, 2019.

PricewaterhouseCoopers d.o.o. was appointed as the Bank's auditor for 2019, 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.

Besides regular General Meeting, in 2019 the Bank held two extraordinary General Meetings as well.

At extraordinary General Meeting held on February 7, 2019 Decision on amendments of Suitability Policy and Decision on allocation of reserves under MSOP (Management Stock Option Programme) were made.

At extraordinary General Meeting held on May 6, 2019 Decision on suitability assessment of the candidates for the Supervisory Board and Decision on election of the Supervisory Board's members were made.

The rules on the appointment and recall of the members of the Management Board and the Supervisory Board and their authorizations, as well as the data on the composition and operations of the Management Board, the Supervisory Board and relevant assistant bodies have been regulated by the Principles.

The members of the Management Board represent the Bank and operate the Bank's business on its own responsibility according to the Companies Act, the Credit Institutions Act and internal acts of the Bank. The Management Board has 6 (six) members. One member of the Management Board is appointed as the president of the Board. The Management Board conducts its activities and adopts its decisions and resolutions at the Meetings. The organization, operation and decision making of the Management Board are regulated by the Rules of Procedure of the Management Board.

Members of the Management Board are:
- Christoph Schoefboeck, President of the Management Board,
- Slađana Jagar, Member of the Management Board until 31 December 2019,
- Borislav Centner, Member of the Management Board,
- Martin Hornig, Member of the Management Board,
- Zdenko Matak, Member of the Management Board,
- Krešimir Barić, Member of the Management Board from 01 January 2020,
- Hannes Frotzbacher, Member of the Management Board from 01 February 2020.

The Supervisory Board shall supervise the management of the Bank. The Supervisory Board has six (6) members. The members of the Supervisory Board are elected by the General Meeting.

Members of the Supervisory Board are:
- Willibald Cernko, President of the Supervisory Board,
- Georg Bucher, Deputy President of the Supervisory Board,
- Ingo Bleier, Member of the Supervisory Board,
- Hannes Frotzbacher, Member of the Supervisory Board until 31 December 2019,
- Judit Ágnes Havasi, Member of the Supervisory Board,
- Walburga Seidl, Member of the Supervisory Board,
- Nikolai Leo de Arnoldi, Member of the Supervisory Board.

Corporate Governance Statement (continued)

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

Audit Committee:
- Georg Bucher, President
- Hannes Frotzbacher, Member until 31 December 2019
- Judit Ágnes Havasi, Member

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

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

Credit Committee:
- Hannes Frotzbacher, President until 31 December 2019
- Nikolai Leo de Arnoldi, Member
- Walburga Seidl, Member

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

Financial Statements for the year ended 31 December 2019

Erste&Steiermärkische Bank d.d.

Responsibility for the Financial Statements

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

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

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

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

Moreover, in accordance with the Accounting Law, the Management Board is obliged to prepare an Annual Report comprising the financial statements, the Management Report and the Corporate Governance Statement. The Management Report and the Corporate Governance Statement were prepared in line with the requirements of Articles 21, 22 and 24 of the Accounting Law. Also, the Management Board is responsible for the submission of its Annual report, which includes annual separate and consolidated financial statements, to the Supervisory Board for acceptance. If the Supervisory Board approves the Annual report it is deemed confirmed by the Management Board and Supervisory Board.

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

Christoph Schoefboeck
President

Krešimir Barić
Member

Martin Hornig
Member

Borislav Centner
Member

Zdenko Matak
Member

Hannes Frotzbacher
Member

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

20 March 2020

Independent auditor's report

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

Report on the audit of the separate and consolidated financial statements

Our opinion

In our opinion, the separate and consolidated financial statements present fairly, in all material respect, the separate and consolidated financial position of Erste&Steiermärkische Bank d.d. (the "Bank") and its subsidiaries (together - the "Group") as at 31 December 2019, and their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 20 March 2020.

What we have audited

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

- the separate and consolidated statements of profit and loss for the year ended 31 December 2019;
- the separate and consolidated statements of other comprehensive income for the year ended 31 December 2019;
- the separate and consolidated statements of financial position as at 31 December 2019;
- the separate and consolidated statements of changes in equity for the year then ended;
- the separate and consolidated statements of cash flows 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 2019 to 31 December 2019.

PricewaterhouseCoopers d.o.o., Heinzelova 70, 10000 Zagreb, Croatia
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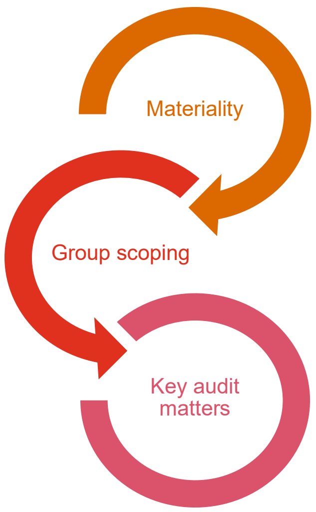
Our audit approach

Overview



- Overall materiality for the financial statements of the Bank as a whole: HRK 55 million, which represents 5% of pre-tax result from continuing operations adjusted for non-recurring items in the amount of HRK 187 million, which represent the amount of an additional provision for a court case which is not expected to recur in the subsequent years.
- Overall materiality for the financial statements of the Group as a whole: HRK 70 million, which represents 5% of pre-tax result from continuing operations adjusted for non-recurring items in the amount of HRK 187 million, which represent the amount of an additional provision for a court case which is not expected to recur in the subsequent years.

- Our audit scope addressed 98% of the Group's interest income and 99% of the Group's absolute value of underlying profit.

- Estimate of credit loss allowances for loans and advances to customers

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

Materiality

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

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

Overall Bank and Group materiality	The Bank: HRK 55 million The Group: HRK 70 million
How we determined it	The Bank: 5 % of total pre-tax result from continuing operations adjusted for non-recurring items in the amount of HRK 187 million, which represent the amount of an additional provision for a court case which is not expected to recur in the subsequent years. The Group: 5 % of total pre-tax result from continuing operations adjusted for non-recurring items in the amount of HRK 187 million, which represent the amount of an additional provision for a court case which is not expected to recur in the subsequent years.
Rationale for the materiality benchmark applied	We chose profit before tax, 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. We adjusted it for non-recurring items in order to achieve comparability with the materiality of the Bank and the Group.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Estimate of credit loss allowances for loans and advances to customers (the Bank and the Group) Refer to note *Impairment of financial assets under IFRS 9* in Section B *Significant accounting policies*, note c) *Accounting and measurement methods*. As at 31 December 2019, the Bank and Group had credit loss allowances for loans and advances at amortised cost to customers of HRK 2.4 billion and HRK 2.6 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, 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.	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.

How we tailored our Group audit scope

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

Reporting on other information including the Management Report

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

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

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

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

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

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

If based on the work we have performed on the other information that we obtained prior to the date of this auditor's report and in light of the knowledge and understanding of the Bank and the Group and their environment obtained in the course of the audit, we conclude that there is a material misstatement in the other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with International Financial Reporting Standards as adopted in the European Union and for such internal control as management determines is necessary to enable the preparation of separate and consolidate] 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 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 with the most recent reappointment on 17 June 2019, representing a total period of uninterrupted engagement appointment of three years.

Forms in accordance with Regulatory Requirements

Based on the Decision on the structure and content of annual financial statements of credit institutions (Official Gazette 42/18), "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 2019, Statements of financial position of the Bank and the Group as at 31 December 2019, the Statements of changes in equity of the Bank and the Group and the Cash flow statements of the Bank and the Group for the year then ended, together with information to reconcile the Forms to the Bank's and the Group's financial statements, disclosed in Appendix 2 – Differences between financial statements according to IFRS and local requirements. The Bank's management is responsible for the preparation of the Forms and information on reconciliation. They do not represent an integral part of the audited financial statements, but contain information required by the Decision. The financial information in the Forms is derived from the Bank's and the Group's audited financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union as presented on pages 71 to 260, 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
20 March 2020

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 2019

Statement of Profit or Loss

in HRK million		GROUP		BANK	
	Notes	2018	2019	2018	2019
Net interest income	1	2,073	2,046	1,652	1,613
Interest income		2,363	2,232	1,960	1,836
Other similar income		167	169	72	67
Interest expense		(381)	(280)	(305)	(217)
Other similar expenses		(76)	(75)	(75)	(73)
Net fee and commission income	2	734	803	465	504
Fee and commission income		968	1,057	642	690
Fee and commission expenses		(234)	(254)	(177)	(186)
Dividend income	3	1	1	21	69
Net trading and fair value result	4	221	234	204	228
Gains/losses from financial instruments measured at fair value through profit or loss	5	4	4	3	3
Net result from equity method investments		11	9	-	-
Rental income from investment properties & other operating leases	6	117	95	2	-
Personnel expenses	7	(701)	(747)	(504)	(538)
Other administrative expenses	7	(648)	(660)	(478)	(496)
Depreciation and amortisation	7	(228)	(248)	(75)	(114)
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	8	28	1	14	-
Impairment result from financial instruments	9	(246)	(43)	(199)	(72)
Other operating result	10	(81)	(284)	(79)	(278)
Pre-tax result from continuing operations		**1,285**	**1,211**	**1,026**	**919**
Income tax	11	(254)	(229)	(196)	(166)
Net result for the period		**1,031**	**982**	**830**	**753**
Net result attributable to non-controlling interests		23	20	-	-
Net result attributable to owners of the parent		**1,008**	**962**	**-**	**-**
Earnings per share					
Basic and diluted (HRK)	44	**59.33**	**56.66**	**-**	**-**

I. Statement of Comprehensive Income for the Year ended 31 December 2019 (continued)

Statement of Other Comprehensive Income

in HRK million	GROUP		BANK	
	2018	2019	2018	2019
Net result for the period	**1,031**	**982**	**830**	**753**
Other comprehensive income				
Items that may not be reclassified to profit or loss				
Remeasurement of net liability of defined pension plans	3	(1)	1	-
Fair value reserve of equity instruments	22	51	20	45
Own credit risk reserve	-	-	-	-
Income taxes relating to items that may not be reclassified	(4)	(9)	(4)	(8)
Total	**21**	**41**	**17**	**37**
Items that may be reclassified to profit or loss				
Fair value reserve of debt instruments	(72)	99	(53)	88
Gain/(loss) during the period	(47)	101	(42)	90
Reclassification adjustments	(28)	(1)	(14)	-
Credit loss allowances	3	(1)	3	(2)
Currency translation	(6)	2	-	-
Gain/(loss) during the period	(6)	2	-	-
Reclassification adjustments	-	-	-	-
Income taxes relating to items that may be reclassified	6	(16)	4	(16)
Gain/(loss) during the period	6	(16)	4	(16)
Reclassification adjustments	-	-	-	-
Total	**(72)**	**85**	**(49)**	**72**
Total other comprehensive income	**(51)**	**126**	**(32)**	**109**
Total comprehensive income	**980**	**1,108**	**798**	**862**
Total comprehensive income attributable to non-controlling interests	23	20	-	-
Total comprehensive income attributable to owners of the parent	**957**	**1,088**	**-**	**-**

II. Statement of Financial Position as at 31 December 2019

in HRK million		GROUP		BANK	
	Notes	31 December 2018	31 December 2019	31 December 2018	31 December 2019
Assets					
Cash and cash balances	12	4,954	5,105	4,383	4,339
Financial assets - held for trading		278	225	279	226
Derivatives	13	33	39	34	40
Other trading assets	14	245	186	245	186
Non-trading financial assets at fair value through profit or loss		165	199	23	25
Pledged as collateral	34	93	-	-	-
Equity instruments	15	11	16	9	10
Debt securities	15	154	183	14	15
Financial assets at fair value through other comprehensive income		8,602	10,604	7,977	9,961
Pledged as collateral	34	323	816	-	421
Equity instruments	16	111	162	102	147
Debt securities	16	8,491	10,442	7,875	9,814
Financial assets at amortised cost		49,678	51,295	46,115	46,817
Pledged as collateral	34	-	25	-	25
Debt securities	18	1,273	1,642	1,020	1,464
Loans and advances to banks	18	5,228	4,367	5,309	4,260
Loans and advances to customers	18	43,177	45,286	39,786	41,093
Finance lease receivables	19	2,080	2,453	-	-
Property and equipment	23	1,245	1,311	669	803
Investment properties	23	49	33	17	3
Intangible assets	24	372	376	120	121
Investments in subsidiaries	22	-	-	989	989
Investments in associates	22	60	58	38	38
Current tax assets	25	10	12	-	-
Deferred tax assets	25	219	187	87	75
Trade and other receivables	20	1,425	1,537	309	188
Other assets	26	554	471	428	356
Total assets		**69,691**	**73,866**	**61,434**	**63,941**
Liabilities and equity					
Financial liabilities - held for trading		27	36	27	36
Derivatives	13	27	36	27	36
Financial liabilities measured at amortised cost		59,687	62,690	52,937	54,529
Deposits from banks	27	8,931	9,814	5,082	5,275
Deposits from customers	27	49,197	51,325	46,983	48,455
Debt securities issued	27	670	672	670	672
Other financial liabilities	27	889	879	202	127
Lease liabilities	32	-	98	-	105
Provisions	28	205	494	166	453
Current tax liabilities	25	106	24	81	8
Deferred tax liabilities	25	2	5	-	-
Other liabilities	29	603	641	413	427
Total liabilities		**60,630**	**63,988**	**53,624**	**55,558**
Subscribed capital		1,698	1,698	1,698	1,698
Capital reserves and share premium		1,887	1,886	1,887	1,886
Retained earnings		5,083	5,756	4,021	4,485
Other reserves		223	350	204	314
Equity attributable to owners of the parent		8,891	9,690	7,810	8,383
Equity attributable to non-controlling interests		170	188	-	-
Total equity	30	**9,061**	**9,878**	**7,810**	**8,383**
Total liabilities and equity		**69,691**	**73,866**	**61,434**	**63,941**

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 2019	**1,698**	**1,887**	**5,083**	**x**	**281**	**(9)**	**1**	**(50)**	**8,891**	**170**	**9,061**
Dividends paid	-	-	(289)	x	-	-	-	-	(289)	(2)	(291)
Reclassification from other comprehensive income to retained earnings	-	-	(1)	x	1	-	-	-	-	-	-
Other changes	-	(1)	1	x	-	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**962**	**x**	**150**	**2**	**(1)**	**(25)**	**1,088**	**20**	**1,108**
Net result for the period	-	-	962	x	-	-	-	-	962	20	982
Other comprehensive income	-	-	-	x	150	2	(1)	(25)	126	-	126
Change from remeasurement of defined benefit plans	-	-	-	x	-	-	(1)	-	(1)	-	(1)
Change in fair value reserve	-	-	-	x	150	-	-	(25)	125	-	125
Change in currency translation reserve	-	-	-	x	-	2	-	-	2	-	2
As of 31 December 2019	**1,698**	**1,886**	**5,756**	**x**	**432**	**(7)**	**-**	**(75)**	**9,690**	**188**	**9,878**
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	-	-	(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**

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 2019	**1,698**	**1,887**	**4,021**	**x**	**247**	**-**	**2**	**(45)**	**-**	**-**	**7,810**
Dividends paid	-	-	(289)	x	-	-	-	-	-	-	(289)
Reclassification from other comprehensive income to retained earnings	-	-	(1)	x	1	-	-	-	-	-	-
Other changes	-	(1)	1	x	-	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**753**	**x**	**133**	**-**	**-**	**(24)**	**-**	**-**	**862**
Net result for the period	-	-	753	x	-	-	-	-	-	-	753
Other comprehensive income	-	-	-	x	133	-	-	(24)	-	-	109
Change from remeasurement of defined benefit plans	-	-	-	x	-	-	-	-	-	-	-
Change in fair value reserve	-	-	-	x	133	-	-	(24)	-	-	109
As of 31 December 2019	**1,698**	**1,886**	**4,485**	**x**	**381**	**-**	**2**	**(69)**	**-**	**-**	**8,383**
As of 1 January 2018	**1,698**	**1,887**	**3,342**	**261**	**-**	**-**	**1**	**(47)**	**-**	**-**	**7,142**
Changes due to initial application of IFRS 9	-	-	(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**

IV. Statement of Cash Flow for the year ended 31 December 2019

in HRK million	GROUP		BANK	
	2018	2019	2018	2019
Net result for the period	**1,031**	**982**	**830**	**753**
Non-cash adjustments for items in net profit/loss for the year				
Depreciation, amortisation, impairment and reversal of impairment, revaluation of assets	271	268	119	125
Allocation to and release of provisions (including risk provisions)	249	321	209	346
Gains/(losses) from the sale of assets	2	(11)	(2)	(11)
Income tax expense	254	229	196	166
Other adjustments	(1)	2	-	-
Changes in assets and liabilities from operating activities after adjustment for non-cash components	**775**	**809**	**522**	**626**
Financial assets - held for trading	195	59	195	59
Non-trading financial assets at fair value through profit or loss				
Equity instruments	(3)	(5)	(3)	(2)
Debt securities	(1)	(29)	1	(1)
Financial assets at fair value through other comprehensive income: debt securities	1,273	(3,805)	1,259	(3,803)
Financial assets at amortised cost				
Debt securities	97	(369)	94	(444)
Loans and advances to banks	(638)	651	(817)	839
Loans and advances to customers	(3,238)	(2,192)	(3,719)	(1,206)
Finance lease receivables	(335)	(372)	-	-
Derivatives	(6)	3	(4)	4
Other assets from operating activities	(192)	(238)	(181)	(188)
Financial liabilities measured at amortised cost				
Deposits from banks	(2,085)	883	(1,313)	193
Deposits from customers	4,824	2,128	4,675	1,472
Debt securities issued	294	2	294	2
Other financial liabilities	(24)	24	(3)	(41)
Other liabilities from operating activities	(38)	9	(21)	(15)
Cash flow from operating activities	**1,929**	**(1,460)**	**1,809**	**(1,752)**
Proceeds from disposal				
Financial assets at fair value through other comprehensive income: equity instruments	14	-	14	-
Property and equipment, intangible assets and investment properties	60	67	8	20
Acquisition of				
Financial assets at fair value through other comprehensive income: equity instruments	-	-	-	-
Property and equipment, intangible assets and investment properties	(276)	(299)	(128)	(159)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	-	-	(81)	-
Investments in associates	-	-	-	-
Cash flow from investing activities	**(202)**	**(232)**	**(187)**	**(139)**
Dividends paid to equity holders of the parent	(160)	(289)	(160)	(289)
Dividends paid to non-controlling interests	(2)	(2)	-	-
Lease liabilities		(29)	-	(27)
Cash flow from financing activities	**(162)**	**(320)**	**(160)**	**(316)**
Cash and cash equivalents at beginning of period	**5,344**	**6,909**	**4,874**	**6,336**
Cash flow from operating activities	1,929	(1,460)	1,809	(1,752)
Cash flow from investing activities	(202)	(232)	(187)	(139)
Cash flow from financing activities	(162)	(320)	(160)	(316)
Cash and cash equivalents at end of period[1)]	**6,909**	**4,897**	**6,336**	**4,129**
Cash flows related to taxes, interest and dividends (included in cash flow from operating activities)				
Payments for income tax	(265)	(303)	(246)	(253)
Interest received	2,451	2,316	2,088	1,953
Dividends received	10	10	20	69
Interest paid	(444)	(387)	(360)	(323)

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 North 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
Georg Bucher	Deputy President
Ingo Bleier	Member
Hannes Frotzbacher	Member until 31 December 2019
Judit Ágnes Havasi	Member
Walburga Seidl	Member
Nikolai Leo de Arnoldi	Member

MANAGEMENT BOARD

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

Christoph Schoefboeck	President
Borislav Centner	Member
Slađana Jagar	Member until 31 December 2019
Zdenko Matak	Member
Martin Hornig	Member
Krešimir Barić	Member from 01 January 2020
Hannes Frotzbacher	Member from 01 February 2020

A. GENERAL INFORMATION (CONTINUED)

PROCURATORS:

The Bank at the moment does not have procurators.

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

DEFINITION OF THE CONSOLIDATED GROUP

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

Name of subsidiary	Note	Ownership interest	Principal activity	Registered office
Erste Nekretnine d.o.o.	22	100%	Real estate business	Ivana Lučića 2A, Zagreb
Erste Bank AD Podgorica, Montenegro	22	100%	Credit institution	Arsenija Boljevića 2A, Podgorica, Montenegro
Erste Card Club d.o.o.	22	100%	Financial intermediation and services	Ulica Frana Folnegovića 6, Zagreb
Erste Card d.o.o. Slovenia	22	100%	Financial intermediation and services	Dunajska cesta 129, Ljubljana, Slovenia
Diners Club International Mak d.o.o.e.l., Skopje	22	100%	Financial intermediation and services	Kej 13-ti Noemvri, 2/2 GTC, Skopje
Erste Factoring d.o.o.	22	100%	Accounts receivables repurchase	Ivana Lučića 2A, Zagreb
Erste&Steiermärkische S-Leasing d.o.o.	22	50%	Financial and operating leasing	Zelinska 3, Zagreb
Izbor Nekretnina d.o.o.	22	100%	Real estate management and lease	Ivana Lučića 2A, Zagreb
Erste Group IT HR d.o.o.	22	80%	IT engineering	Jurja Haulika 19/A, Bjelovar
Name of associate				
Erste d.o.o.	22	45.86%	Management company for obligatory and voluntary pension fund	Ivana Lučića 2A, Zagreb

Acquisitions

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.

Disposal

In March 2019 S Immorent Zeta d.o.o. was sold in amount of HRK 347 thousand and in the same amount the Bank made a reversal of impairment of investment.

B. SIGNIFICANT ACCOUNTING POLICIES

a) BASIS OF PREPARATION

The financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) as published by the IASB and adopted by the European Union (EU).
In accordance with the applicable measurement models prescribed or permitted under IFRS, the consolidated financial statements have been prepared on a cost basis, except for financial assets measured at fair value through other comprehensive income and financial assets and liabilities measured at fair value through profit or loss.
The accounting policies are consistent except for the impact of the implementation of IFRS 16 (for details please see Note c) Accounting and measurement methods, IFRS 16 Leases).

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.

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 Group has control.
All entities directly or indirectly controlled by the Group are consolidated in the Group financial statements on the basis of their annual accounts as of 31 December 2019, and for the year then ended.

Subsidiaries are consolidated from the date on which control commences until the date when control ceases. Control is achieved when the Group is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power to direct the relevant activities of the investee. Relevant activities are those which most significantly affect the variable returns of an entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of 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 Group and using consistent accounting policies. All intragroup transactions, balances, income and expenses, unrealised gains and losses are eliminated on consolidation.

Non-controlling interest represents the portion of total comprehensive income and net assets of subsidiaries that is not attributable, directly or indirectly, to the owners of the Bank. Non-controlling interest is presented separately in the consolidated statement of 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 Group has significant influence but no control. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. As a general rule, 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 16 Leases

As of 01 January 2019, the Group has adopted IFRS 16, issued by the IASB in January 2016.
IFRS 16 replaced the 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 introduced 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 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 uses the straight-line method of depreciation. The right-of-use assets are subject to the impairment regulations of IAS 36.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if the rate cannot be readily determined, the lessee's incremental borrowing rate. Lease payments comprise fixed lease payments, variable lease payments that depend on an index or a rate, amounts expected to be payable under a residual value guarantee, 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. The incremental borrowing rate for leases of movables consists of Euribor as a base rate, adjusted by a surcharge based on the entity's rating, the amount of funds borrowed, the term of the lease and the collateral provided. The determination of the incremental borrowing rate for property leases is based on two components: the market rate and single property rate. The market rate considers lease term, currency of the lease, creditworthiness of the lessee and it is derived from existing bank data from the lending business. The single property rate represents the surcharge to the market rate based on the quality of the single property.

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

The Group transited to IFRS 16 using the modified retrospective approach according to IFRS 16.C5 (b) whereby comparative information was not restated. All contracts which were previously identified as leases by applying IAS 17 and IFRIC 4 were taken over into IFRS 16. For leases previously classified as operating leases, the Group recognised lease liabilities. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate determined at the date of initial application. The right-of-use assets were recognised at an amount equal to the lease liability (IFRS 16.C8 (b) (ii)).
As a result, the initial application had no impact on the Group's equity.

The Group does not apply IFRS 16 to any leases on intangible assets. The Group uses the exemption for short term leases and leases of low value items whereby the right of use asset is not recognised.

In the statement of financial position, right of use assets have been included in the line item 'Property and equipment'.
The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 is about 7%.

IFRS 16 Leases (continued)

The application of IFRS 16 will have an impact on future profit or loss. While the total amount of the expenses charged over the lease term remains the same, the distribution in time and disclosure of the related expenses in profit or loss change. According to IAS 17, expenses for operating leases are recognised on a straight-line basis. According to IFRS 16, expenses are split between interest expenses and depreciation. Interest expenses decrease over the lease term but depreciation is generally carried out on a straight-line basis, which results in a shift of expenses into the earlier periods of the lease term.

Reconciliation of total lease commitments to lease liabilities

in HRK million	GROUP	BANK
Operating lease commitments (IAS 17) undiscounted as of 31 December 2018	**181**	**183**
(-) Discounting (using incremental borrowing rates as at 1 January 2019)	(31)	(31)
Discounted operating lease commitments as of 1 January 2019	**150**	**152**
Recognition exemption for:		
Less: short-term leases	(5)	(5)
Less: leases of low-value assets	(49)	(49)
Add/Less: Extension and termination options reasonably certain to be exercised	(12)	(12)
Add/Less: Other	3	2
Lease liabilities recognised as of 1 January 2019	**87**	**88**

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, 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 and 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 financial assets at initial recognition depends on the following criteria:

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

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

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

Financial instruments – recognition and measurement (continued)

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's point of view, sales due to increases in credit risk, sales close to assets' maturity, infrequent sales triggered by a non-recurring event (such as changes in regulatory or tax environment, major internal reorganisation or a business combination, severe liquidity crisis, etc.) are considered as not contradicting the held to collect contractual cash flows business model.
2) Business models 'held to collect', 'hold and sell' and other business models for securities (non-client business).

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: This model includes all financial assets that is not held within a business model whose objective is to hold assets in order to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. The objective of this model is maximising the cash flows by selling financial assets. Typical example of such model is the 'held for trading' classification category.

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

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

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

Financial instruments – recognition and measurement (continued)

If the contractual terms include characteristics that are not the basic elements of interest and therefore introduce exposure to risks or volatility in the contractual cash flows that are unrelated to basic lending arrangement, then financial asset fails the SPPI test. For financial assets not passing the SPPI test, measurement at amortised cost or at fair value through other comprehensive income is not possible and the assets must be measured at fair value through profit or loss.

Furthermore, the significance of any ‘modifications’ to the time value of money element of interest (e.g. mismatch between interest rate reset frequency and tenor of the interest rate, or non-standard base rate, etc.) shall be assessed by applying the ‘benchmark test’.
The purpose of the benchmark test is to determine whether the modified time value of money element could result in contractual (undiscounted) cash flows which are significantly different from the (undiscounted) benchmark cash flows (benchmark deal). Apart from the interest mismatch features, the terms of this benchmark deal correspond to the asset in the test. If the difference is material, the financial asset does not meet the SPPI condition. Hence, the fair value through profit or loss measurement applies.
To make this determination, the Group must consider the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

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 derecognition
- Financial guarantee contracts
- Commitments to provide a loan at a below-market interest rate
- Contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies.

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

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 38 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 derecognition of the asset and recognition of gains or losses due to the sale.

Subsequently, financial instruments are measured at amortised cost or fair value, as defined under the measurement categories below.

Financial instruments – recognition and measurement (continued)

(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 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 initially measured 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.

Financial instruments – recognition and measurement (continued)

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.

Modifications of contractual cash flows not leading to derecognition of financial assets

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

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

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

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

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'.

Financial instruments – recognition and measurement (continued)

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

iv) 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 fair value gains or losses. On the balance sheet, they are included as 'Debt securities' under the line 'Financial asset at fair value through other comprehensive income'.
For certain investments in equity instruments that are not held for trading, the Group makes use of the option to measure them at fair value through other comprehensive income. This election is applied to strategic, significant banking business relationship investments. On the balance sheet, they are included as 'Equity instruments' under the line 'Financial asset at fair value through other comprehensive income'.

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 derecognition 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

- Changes in fair value (gains and losses) are recognised in other comprehensive income, and reported under the line 'Fair value reserve of debt instruments' in the statement of comprehensive income
- Interest income is recognised in profit or loss, by using effective interest rate method, and reported under the line 'Interest income' under 'Net interest income' in the statement of 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 derecognition, gains and losses previously recognised in other comprehensive income are reclassified to profit or loss and reported under the line 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'.

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).

(v) 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 15 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 15.

Initial recognition and subsequent measurement

Financial assets within this measurement category are 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 derecognition, gains and losses are recognised in profit or loss, and reported under the line 'Net trading result' for financial assets held for trading and under the line 'Gains/losses from financial instruments measured at fair value through profit or loss' in case of non-trading financial assets at fair value through profit or loss.

Financial liabilities measured at fair value through profit or loss

Financial liabilities at fair value through profit or loss consist of financial liabilities held for trading 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 of the fair value change resulting from the credit risk accumulated 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 derecognition, 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'.

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.

Impairment of financial instruments under IFRS 9 (continued)

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.

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 37.4 Risk management, part Credit risk.

Derecognition of financial instruments including treatment of contractual modifications

(i) Derecognition 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 derecognition

The decision whether a transfer qualifies for derecognition 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 derecognition of financial assets measured at amortised cost' or, for financial assets at fair value through other comprehensive income, under the line 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'. For financial assets measured at fair value through profit or loss, the derecognition gains or losses are reported together with the measurement result under the lines 'Net trading result' or 'Gains/losses from financial instruments measured at fair value through profit or loss'.

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

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.

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 derecognition of the related original asset result in the initial recognition of a new financial asset. If the debtor is in default or the significant modification leads to the default, new asset is treated as POCI. The difference between the carrying amount of the derecognised asset and initial fair value of the new POCI asset is reported in the statement of income under the line 'Impairment result from financial instruments'.

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

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

In the statement of 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) Derecognition 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.

Write-off

If there is no reasonable expectations of recovery, the Group will write-off the gross carrying amount of the financial assets. The written-off amount can be either full write-off or partial write-off.
A write-off constitutes a de recognition event and it is recognized as an offset between the loss allowance booked for the respective financial asset and its gross carrying amount.
The Group has specified criteria for writing off the unrecoverable balances in its loan business. Write-off can result from forbearance measures whereby the Group contractually waives part of the existing balance in order to help the customers overcome financial difficulties and thus improve the prospects of recovering the remaining loan balance. Write-offs of the unrecoverable exposure parts can be triggered by enforcement activities such as filing or termination of legal proceedings (bankruptcy, liquidation, court case). Other write-off triggers may result from decisions about no enforcement due to worthlessness of the claim/collateral or generally from assessment that the receivable is economically lost or, the non-recoverability and the timing and amounts of write-off crystallise during the collection process when it becomes evident that the amount due cannot be collected, e.g. due to ongoing bankruptcy proceedings.

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 derecognition requirements.
Subsequent to initial recognition, provisions are recognised based on the expected credit loss impairment model and reported on the statement of financial position under the line ‘Provisions’.
The fee received is recognised in the statement of 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 – applicable from 01 January 2019

A lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

Group as a lessor
A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. In the case of a finance lease, the lessor reports a receivable from the lessee under the line item 'Finance lease receivables'. The receivable is equal to the present value of the contractually agreed payments taking into account any residual value. Interest income on the receivable is reported in the statement of income in the line item 'Other similar income' under 'Net interest income'.

In the case of operating leases, which are leases other than finance leases, the leased asset is reported by the lessor in 'Property and equipment' or in 'Investment properties' and is depreciated in accordance with the principles applicable to the assets involved. Lease income is recognised on a straight-line basis over the lease term in the statement of income under the line item 'Rental income from investment proper-ties and other operating leases'.

Group as a lessee
Under IFRS 16, Group as a lessee recognises a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases (less than 12 months) and leases of low-value items.

The right of use asset is initially measured at cost. Subsequently, the right-of-use asset is depreciated to the earlier of the end of its useful life or the end of the lease term. The Group uses the straight-line method of depreciation. The right of use assets are presented as part of 'Property and equipment' in the statement of financial position and depreciation cost as part of the line 'Depreciation and amortisation' in the statement of in-come. The cost comprises the amount of initial measurement of the lease liability (including any lease payments made at or before the commencement date), less any lease incentives received, any initial direct costs incurred by the lessee and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset. The right of use asset is in scope of impairment requirements in IAS 36.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if the rate cannot be readily determined, the lessee's incremental borrowing rate. Lease payments comprise fixed lease payments, variable lease payments that depend on an index or a rate, amounts expected to be payable under a residual value guarantee. Additionally, the exercise price under a purchase option and lease payments in an optional renewal period are considered if the lessee is reasonably certain to exercise the options. The incremental borrowing rate for movables consists of Euribor as a base rate, adjusted by a surcharge based on the entity's rating, the amount of funds borrowed, the term of the lease and the collateral provided. The determination of the incremental borrowing rate for property leases is based on two components, the market rate and the single property rate. The market rate considers the lease term, creditworthiness and is derived from existing bank data from the lending business. The single property rate represents a surcharge to the market rate based on the quality of the single property.
Subsequently, the carrying amount of the lease liability is increased by interest accrued using the applicable discount rate, reduced by lease payments made and remeasured to reflect any reassessment or lease modification. In the statement of financial position, the lease liabilities are presented in the line item 'Lease liabilities'. Interest expense decreases over the lease term and it is presented as part of 'Other similar expenses' under the line 'Net interest income' in the statement of income.

Leasing – applicable before 01 January 2019

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 in the line 'Other similar 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.

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 2019	EUR 1=HRK 7.442580
31 December 2018	EUR 1=HRK 7.417575

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.

For business combinations from 1 January 2010, acquisition costs incurred are expensed and included in administrative expenses in the period to which they relate. The Group measures goodwill as the excess of the sum of the consideration transferred, the amount of any non-controlling interests, and the fair value of the previously held equity interest over the net of the acquisition date amounts of the identifiable assets acquired as well as the liabilities assumed. At the acquisition date, the identifiable assets acquired and the liabilities assumed are generally recognised at their fair values.
If, after reassessment of all components described above, the calculation results in a negative amount, it is recognised as a gain and presented in the statement of income under the line item ‘Other operating result’ in the year of acquisition.

For business combinations prior to 1 January 2010, acquisition costs were included in the cost of business combination and the goodwill represents the excess of the cost of the business combination over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If the Group’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities exceeded the cost of the business combination, the determined amount was recognized in profit or loss in the period of acquisition, and presented in the statement of income under the line ‘Other operating result’.

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

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. As IFRS 3 does not apply to business combinations involving entities under common control, the Group has adopted, in line with IAS 8, an accounting policy whereby such transactions are accounted for using the pooling of interest method.

Application of this method is as follows:
- The assets and liabilities of the combining entities are reflected at their carrying amounts as previously presented in the consolidated financial statements of the parent entity of the Group;
- No adjustments are made to reflect fair values, or recognise any new assets or liabilities, that would otherwise be done under the purchase method. The only adjustments that are made are to harmonise accounting policies;
- No new goodwill is recognised as a result of the combination;
- The only goodwill that is recognised is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid/transferred and the equity acquired is reflected within equity;
- The statement of profit or loss reflects the results of the combining entities for the full year, irrespective of when the combination took place;
- Comparatives are not restated.

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.

(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	
	2018	2019
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 presented in the statement of income under the line 'Rental income from investment properties and other operating leases'. Depreciation is recognised and presented 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 presented under 'Property and equipment'. Any impairment losses, as well as their reversals, are recognised in the statement of income and presented 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	
	2018	2019
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 profit or loss and presented 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.
In the statement of financial position, provisions are presented under the line 'Provisions'. They include credit risk loss provisions for contingent liabilities (particularly financial guarantees and loan commitments) as well as provisions for litigation and restructuring. Expenses or income related to provisions for loan commitments and financial guarantees under IFRS 9 requirements are presented in the statement of income under the line item 'Impairment result from financial instruments'. Expenses or income related to other provisions are presented in the statement of income under the line 'Other operating result'.
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Long-term employee benefits

Long-term employee benefits are all benefits given by the Group in exchange for services rendered by employees which become due in more than 12 months from the period of services rendered to which they relate.

Obligations for defined retirement benefit and jubilees are recognised in the amount of net present value determined by using the Projected Unit Credit Method, with actuarial valuations being carried out at each statement of financial position date.
Actuarial gains or losses in respect of pension benefit provisions are recognized in full in the period in which they occur. Remeasurement of actuarial gains or losses related to pension benefits are recognised in other comprehensive income and the amounts of remeasurements accumulated in other comprehensive income are not reclassified to profit or loss
Actuarial gains or losses in provisions for jubilee benefits are recognised in the statement of income in the period in which they occur. Remeasurement of jubilee defined-benefit plans are recognised in the statement of income and presented under the line 'Personnel expenses'.

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.

(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.

Income tax (continued)

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.

'Interest income' relates to interest revenue from financial assets measured at amortised cost and at fair value through other comprehensive income. It is calculated using the EIR method as discussed in chapter 'Financial instruments - recognition and measurement'.

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

'Interest expenses' relates to interest expense from financial liabilities measured at amortised cost calculated using effective interest rate as discussed in chapter 'Financial instruments - 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, lease liabilities and net defined liability (net interest cost on severance payment, pension and jubilee obligations) under IAS 19.

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

Recognition of income and expenses (continued)

(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 fees that are not integral part of financial instrument's EIR, guarantee fees, commission income from asset management, custody and other management and advisory fees as well as fees from insurance brokerage, building society brokerage and foreign exchange transactions.

(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 derecognition, 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 derecognition, 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.

(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, depreciation of right of use assets and amortisation of intangible assets.

Recognition of income and expenses (continued)

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

(xii) Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss
This line item includes derecognition gains or losses on financial assets measured at fair value through other comprehensive income, financial liabilities measured at amortised cost and other financial instruments not measured at fair value through profit or loss, such as finance lease receivables or financial guarantees.
However, if such gains/losses relate to financial assets in Stage 3 they are reported under the line 'Impairment result from financial instruments'.

(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 derecognition of financial assets in Stage 3 and POCI assets are included as part of the impairment result.

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

The 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. Any impairment losses on goodwill are also included in this line item.

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

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.

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

e) 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 2019. 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 the financial year 2019, and have been endorsed by the EU:
- IFRS 16: Leases
- Amendments to IFRS 9: Prepayment features with negative compensation
- IFRIC 23: Uncertainty over Income Tax Treatments
- 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)

The effects of application of IFRS 16 is 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 endorsed by the EU:
- Amendments to the Conceptual Framework for Financial Reporting
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28
- Amendments to IFRS 3: Definition of a Business
- Amendments to IAS 1 and IAS 8: Definition of Material

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

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance – in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Standards and interpretations not yet effective (continued)

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB, not endorsed by European Union yet).
These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.

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.

C. NOTES

1. Net interest income

	GROUP		BANK	
in HRK million	**2018**	**2019**	**2018**	**2019**
Interest income				
Financial assets at AC	2,181	2,053	1,804	1,683
Financial assets at FVOCI	182	179	156	153
Other similar income				
Financial assets - held for trading	69	61	71	63
Other assets	97	103	-	-
Interest income from negative interest rates	1	5	1	4
Interest and other similar income	**2,530**	**2,401**	**2,032**	**1,903**
Interest expenses				
Financial liabilities measured at amortised cost	(381)	(280)	(305)	(217)
Other similar expense				
Financial liabilities - held for trading	(65)	(59)	(65)	(59)
Other liabilities	(1)	(8)	-	(7)
Interest expense from negative interest rates	(10)	(8)	(10)	(7)
Interest and other similar expense	**(457)**	**(355)**	**(380)**	**(290)**
Net interest income	**2,073**	**2,046**	**1,652**	**1,613**

2. Net fee and commission income

	GROUP				BANK			
in HRK million	**2018**		**2019**		**2018**		**2019**	
	Income	**Expenses**	**Income**	**Expenses**	**Income**	**Expenses**	**Income**	**Expenses**
Securities	16	(3)	22	(2)	14	(1)	19	(1)
Own issues	10	-	15	-	10	-	15	-
Transfer orders	6	(2)	6	(1)	4	-	4	-
Securities Other	-	(1)	1	(1)	-	(1)	-	(1)
Asset management	30	-	31	(2)	30	-	31	(2)
Custody	10	(3)	11	(3)	9	(3)	10	(3)
Payment services	793	(203)	871	(220)	509	(166)	547	(175)
Card business	467	(169)	514	(183)	201	(139)	206	(146)
Other	326	(34)	357	(37)	308	(27)	341	(29)
Customer resources distributed but not managed	30	-	33	(1)	29	-	32	(1)
Collective investment	-	-	-	(1)	-	-	-	(1)
Insurance products	28	-	27	-	27	-	26	-
Building society brokerage	2	-	4	-	2	-	4	-
Foreign exchange transactions	-	-	2	-	-	-	2	-
Lending business	64	(8)	59	(5)	43	(7)	39	(4)
Loan commitments given, Loan commitments received	22	(6)	36	(1)	8	(5)	33	(1)
Guarantees given, guarantees received	36	(2)	17	(4)	34	(2)	4	(3)
Other lending business	6	-	6	-	1	-	2	-
Other	25	(17)	30	(21)	8	-	12	-
Net fee and commission income	**968**	**(234)**	**1,057**	**(254)**	**642**	**(177)**	**690**	**(186)**

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

	GROUP		BANK	
in HRK million	**2018**	**2019**	**2018**	**2019**
Financial assets at cost	-	-	20	68
Financial assets at FVOCI	1	1	1	1
Dividend income	**1**	**1**	**21**	**69**

4. Net trading and fair value result

	GROUP		BANK	
in HRK million	**2018**	**2019**	**2018**	**2019**
Net trading result				
Securities and derivatives trading	23	37	18	36
Foreign exchange transactions	198	197	186	192
Net trading and fair value result	**221**	**234**	**204**	**228**

The amounts of the fair value changes that are attributable to changes in own credit risk can be found in the Notes 37.

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

	GROUP		BANK	
in HRK million	**2018**	**2019**	**2018**	**2019**
Result from measurement/sale of financial assets mandatorily at FVPL	4	4	3	3
Gains/losses from financial instruments measured at fair value through profit or loss	**4**	**4**	**3**	**3**

6. Rental income from investment properties & other operating leases

	GROUP		BANK	
in HRK million	**2018**	**2019**	**2018**	**2019**
Investment properties	4	2	2	-
Other operating leases	113	93	-	-
Rental income from investment properties & other operating leases	**117**	**95**	**2**	**-**

7. General administrative expenses

	GROUP		BANK	
in HRK million	**2018**	**2019**	**2018**	**2019**
Personnel expenses	**(701)**	**(747)**	**(504)**	**(538)**
Wages and salaries	(595)	(638)	(426)	(457)
Compulsory social security	(88)	(90)	(63)	(66)
Long-term employee provisions	(1)	(2)	(1)	(1)
Other personnel expenses	(17)	(17)	(14)	(14)
Other administrative expenses	**(648)**	**(660)**	**(478)**	**(496)**
Deposit insurance contribution	(83)	(86)	(69)	(72)
IT expenses	(169)	(172)	(153)	(176)
Expenses for office space	(104)	(88)	(85)	(71)
Office operating expenses	(133)	(152)	(68)	(70)
Advertising/marketing	(70)	(83)	(42)	(47)
Legal and consulting costs	(66)	(53)	(43)	(40)
Sundry administrative expenses	(23)	(26)	(18)	(20)
Depreciation and amortisation	**(228)**	**(248)**	**(75)**	**(114)**
Software and other intangible assets	(45)	(54)	(23)	(27)
Owner occupied real estate	(19)	(35)	(14)	(30)
Movable other property	(95)	(78)	-	-
Investment Properties	(1)	(1)	(1)	-
Office furniture and equipment and sundry property and equipment	(68)	(80)	(37)	(57)
General administrative expenses	**(1,577)**	**(1,655)**	**(1,057)**	**(1,148)**

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 2019 expense amount for pension contributions was HRK 114 million for the Group (2018: HRK 102 million) and HRK 81 million for the Bank (2018: HRK 73 million).

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

	2018	**2019**
Erste&Steiermärkische Bank d.d.	2,360.23	2,433.00
Erste Card Club d.o.o.	264.88	275.10
Izbor Nekretnina d.o.o.	-	-
Erste Nekretnine d.o.o.	22.52	22.55
Erste Factoring d.d.	27.73	21.76
Erste Group IT HR d.o.o.	67.08	69.84
Erste bank Podgorica d.d.	252.42	257.99
Erste Card Slovenia d.o.o.	58.79	58.50
Erste&Steiermärkische S-Leasing d.o.o.	86.06	92.33
Diners Club International Mak d.o.o.e.l.	42.81	43.07
Total	**3,182.52**	**3,274.14**

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

		GROUP		BANK
in HRK million	**2018**	**2019**	**2018**	**2019**
Sale of financial assets at FVOCI	28	1	14	-
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	**28**	**1**	**14**	**-**

9. Impairment result from financial instruments

		GROUP		BANK
in HRK million	**2018**	**2019**	**2018**	**2019**
Financial assets at FVOCI	(3)	1	(3)	2
Financial assets at AC	(212)	(1)	(161)	(33)
Net allocation to credit loss allowances	(270)	(97)	(172)	(100)
Direct write-offs	(43)	(54)	(29)	(11)
Recoveries recorded directly to the income statement	101	151	40	79
Modification gains or losses	-	(1)	-	(1)
Finance lease receivables	3	(1)	-	-
Net allocation of credit loss allowances for loan commitments and financial guarantees given	(34)	(42)	(35)	(41)
Impairment result from financial instruments	**(246)**	**(43)**	**(199)**	**(72)**

10. Other operating result

		GROUP		BANK
in HRK million	**2018**	**2019**	**2018**	**2019**
Other operating expenses	**(102)**	**(331)**	**(92)**	**(324)**
Allocation to other provisions	(28)	(308)	(19)	(302)
Other taxes	(2)	(2)	(1)	(1)
Recovery and resolution fund contributions	(28)	(21)	(28)	(21)
Impairment of goodwill	(44)	-	-	-
Impairment of investment in subsidiaries	-	-	(44)	-
Other operating income	**22**	**30**	**7**	**28**
Release of other provisions	22	30	7	28
Result from properties/movables/other intangible assets other than goodwill	(13)	(9)	(6)	-
Result from other operating expenses/income	12	26	12	18
Other operating result	**(81)**	**(284)**	**(79)**	**(278)**

Line Impairment of goodwill and investment in subsidiaries contains impairment expense of goodwill and investment in Erste Card Club d.o.o. for 2018 (for details please see Note 24).

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 2019 the Group and Bank impairment losses for foreclosed asset were HRK 15 million and HRK 8 million, respectively (2018: HRK 14 million for the Group and HRK 8 million for the Bank).

Recovery and Resolution Fund

The line Recovery and resolution fund contributions contains to the national resolution funds payable in 2019 in the amount of HRK 21 million for the Group and the Bank (2018: HRK 28 million) are disclosed. The contributions are based on the European Recovery and Resolution Directive, which, inter alia, establishes a financing mechanism for the resolution of credit institutions. As a consequence, banks are required to contribute annually to a resolution fund, which in first step is installed on a national level. According to these regulations, until 31 December 2024 the available financial means to resolution funds shall reach at least 1% of the amount of covered deposits of all the credit institutions authorized within the European Union. Therefore the resolution fund contribution have to be built over 10 years, during which the contributions shall be spread out as even as possible until target level is reached.

11. 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	**2018**	**2019**	**2018**	**2019**
Current tax expense / income	(239)	(220)	(196)	(179)
Current period	(239)	(220)	(196)	(179)
Deferred tax expense / income	(15)	(9)	-	13
Current period	(15)	(9)	-	13
Total	**(254)**	**(229)**	**(196)**	**(166)**

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	**2018**	**2019**	**2018**	**2019**
Pre-tax profit	1,285	1,212	1,026	919
Income tax expense for the financial year at the domestic statutory tax rate	(231)	(218)	(185)	(166)
Impact of different foreign tax rates	8	10	-	-
Impact of tax-exempt earnings of investments and other tax-exempt income	95	9	9	14
Tax increases due to non-deductible expenses, additional business tax and similar elements	(86)	(31)	(20)	(14)
Impact non-recoverable temporary differences incurred in the current period	(40)		-	-
Tax income not attributable to the reporting period	-	1	-	-
Total	**(254)**	**(229)**	**(196)**	**(166)**
Effective tax rate	**20%**	**19%**	**19%**	**18%**

12. Cash and cash balances

	GROUP		BANK	
in HRK million	**2018**	**2019**	**2018**	**2019**
Cash on hand	1,735	2,558	1,565	2,407
Cash balances at central banks	2,976	1,958	2,643	1,708
Other demand deposits	243	589	175	224
Cash and cash balances	**4,954**	**5,105**	**4,383**	**4,339**

Analysis of cash and cash equivalents for statement of cash flow

	GROUP		BANK	
in HRK million	**2018**	**2019**	**2018**	**2019**
Cash on hand	1,735	2,558	1,565	2,407
Cash balances at central banks	2,976	1,748	2,643	1,498
Other demand deposits	243	589	175	224
Placement with banks with original maturity up to 3 months	2	2	-	-
Treasury bills with original maturity up to 3 months	1,953	-	1,953	-
Cash and cash equivalents	**6,909**	**4,897**	**6,336**	**4,129**

13. Derivatives - held for trading

	GROUP					
	2018			2019		
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	**9,085**	**32**	**26**	**7,933**	**39**	**35**
Interest rate	1,276	12	8	1,323	21	18
Foreign exchange	7,809	20	18	6,610	18	17
Derivatives held in the banking book	**667**	**1**	**1**	**1,523**	**-**	**1**
Interest rate	-	-	-	-	-	-
Foreign exchange	667	1	1	1,523	-	1
Total	**9,752**	**33**	**27**	**9,456**	**39**	**36**

	BANK					
	2018			2019		
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	**9,163**	**33**	**26**	**8,377**	**39**	**35**
Interest rate	1,354	13	8	1,397	21	18
Foreign exchange	7,809	20	18	6,980	18	17
Derivatives held in the banking book	**667**	**1**	**1**	**1,523**	**1**	**1**
Interest rate	-	-	-	-	-	-
Foreign exchange	667	1	1	1,523	1	1
Total	**9,830**	**34**	**27**	**9,900**	**40**	**36**

14. Other trading assets

	GROUP		BANK	
in HRK million	2018	2019	2018	2019
Debt securities	245	186	245	186
General governments	245	186	245	186
Other trading assets	**245**	**186**	**245**	**186**

Financial assets and liabilities held for trading are measured at fair value based on quoted prices. In circumstances where quoted market prices are not readily available, the fair value of those securities is estimated using the present value of future cash flows.
As of 31 December 2019 financial assets held for trading are treasury bills of the Croatian Ministry of Finance with maturity in 2020, and with interest rate of 0.000%. As of 31 December 2018 financial assets held for trading are treasury bills of the Croatian Ministry of Finance with maturity in 2019, and with interest rate of 0.096%.

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

				GROUP
	2018		2019	
in HRK million	Designated	Mandatorily	Designated	Mandatorily
Equity instruments	-	11	-	16
Debt securities	-	154	-	183
Other financial corporations	-	154	-	160
Non-financial corporations		-		23
Financial assets mandatorily at FVPL	-	165	-	199
Non-trading financial assets at fair value through profit or loss	**-**	**165**	**-**	**199**

				BANK
	2018		2019	
in HRK million	Designated	Mandatorily	Designated	Mandatorily
Equity instruments	-	9	-	10
Debt securities	-	14	-	15
Other financial corporations	-	14	-	15
Financial assets mandatorily at FVPL	-	23	-	25
Non-trading financial assets at fair value through profit or loss	**-**	**23**	**-**	**25**

16. 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 2019 amounts to HRK 162 million for the Group (2018: HRK 111 million) and HRK 147 million for the Bank (2018: HRK 102 million). During the year 2018, the sales of such instruments amounted to HRK 14 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 2019 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
2019										
Debt securities	9,986	199	-	10,185	(26)	(8)	-	(34)	257	10,442
General governments	9,270	-	-	9,270	(9)	-	-	(9)	241	9,511
Credit institutions	413	199	-	612	(8)	(8)	-	(16)	(1)	611
Non-financial corporations	303	-	-	303	(9)	-	-	(9)	17	320
Total	**9,986**	**199**	**-**	**10,185**	**(26)**	**(8)**	**-**	**(34)**	**257**	**10,442**

										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**

16. 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
2019										
Debt securities	9,390	199	-	9,589	(23)	(8)	-	(31)	225	9,814
General governments	8,674	-	-	8,674	(6)	-	-	(6)	209	8,883
Credit institutions	413	199	-	612	(8)	(8)	-	(16)	(1)	611
Non-financial corporations	303	-	-	303	(9)	-	-	(9)	17	320
Total	**9,390**	**199**	**-**	**9,589**	**(23)**	**(8)**	**-**	**(31)**	**225**	**9,814**

										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**

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.
During 2019, the average interest yields on HRK denominated treasury bills were 0.03% for treasury bills with a maturity of 91 days, 0.06% for treasury bills with a maturity of 182 days and 0.08% for treasury bills with a maturity of 364 days. The average interest yields on the currency clause EUR denominated treasury bills were -0.01% for treasury bills with a maturity of 364 days. The average interest yields on EUR treasury bills were 0.05% for treasury bills with a maturity of 546 days.
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 2020 to 2029 and bear coupon interest from 0.250% to 6.750% p.a.

Bonds of Republic of Poland are fixed income debt securities denominated in USD and EUR and listed on stock exchanges. These bonds have maturity from 2023 to 2029 and bear coupon interest from 0,875% to 5,250% p.a. Bonds of Montenegro are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturity from 2020 to 2029 and bear coupon interest from 2.550% to 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 from 2023 to 2028 and bear coupon interest from 0.000% to 3.375% p.a. Bond of United States of America is a fixed income debt security denominated in USD and listed on stock exchanges. That bond has the maturity in 2022 and bears coupon interest of 1.625% p.a.
Also, in financial assets at fair value through other comprehensive income is a bond issued by European investment Bank with maturity in 2024 and with coupon interest of 3.250% p.a. and also bonds issued by KfW Bank denominated in USD with maturities from 2020 to 2025 and with coupon interest from 1.375% to 2.000% p.a.

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

Treasury bills of the Croatian Ministry of Finance with maturity in 2020, with interest rate of 0.000% EUR denominated and with interest rate of 0.000% HRK denominated are fixed income debt securities.
Financial assets at fair value through other comprehensive income are measured at fair value based on quoted prices. In circumstances where quoted market prices are not readily available, the fair value of these securities is estimated using the present value of future cash flows.

There are no purchased or originated credit-impaired (POCI) debt securities at FVOCI as of 31 December 2019 and 31 December 2018.

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 19						Dec 19
Stage 1	(34)	(12)	12	-	8	-	(26)
Stage 2	-	(8)	-	-	-	-	(8)
Stage 3	-	-	-	-	-	-	-
Total	**(34)**	**(20)**	**12**	**-**	**8**	**-**	**(34)**

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 19						Dec 19
Stage 1	(32)	(11)	12	-	8	-	(23)
Stage 2	-	(8)	-	-	-	-	(8)
Stage 3	-	-	-	-	-	-	-
Total	**(32)**	**(19)**	**12**	**-**	**8**	**-**	**(31)**

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)**

17. Securities

GROUP

	Financial assets					Financial assets				
	At AC	Trading assets	Mandatorily at FVPL	At FVOCI	Total	At AC	Trading assets	Mandatorily at FVPL	At FVOCI	Total
in HRK million					2018					2019
Bonds and other interest-bearing securities	**1,273**	**245**	**154**	**8,491**	**10,163**	**1,642**	**186**	**183**	**10,442**	**12,453**
Listed	1,273	245	147	8,316	9,981	1,642	186	145	10,263	12,236
Unlisted	-	-	7	175	182	-	-	38	179	217
Equity-related securities	**-**	**-**	**9**	**111**	**120**	**-**	**-**	**16**	**162**	**178**
Listed	-	-	-	-		-	-	-	-	-
Unlisted	-	-	9	111	120	-	-	16	162	178
Equity holdings	**-**	**-**	**2**	**-**	**2**	**-**	**-**	**-**	**-**	**-**
Total	**1,273**	**245**	**165**	**8,602**	**10,285**	**1,642**	**186**	**199**	**10,604**	**12,631**

BANK

	Financial assets					Financial assets				
	At AC	Trading assets	Mandatorily at FVPL	At FVOCI	Total	At AC	Trading assets	Mandatorily at FVPL	At FVOCI	Total
in HRK million					2018					2019
Bonds and other interest-bearing securities	**1,020**	**245**	**14**	**7,875**	**9,154**	**1,464**	**186**	**15**	**9,814**	**11,479**
Listed	1,020	245	7	7,690	8,962	1,464	186	-	9,635	11,285
Unlisted	-	-	7	185	192	-	-	15	179	194
Equity-related securities	**-**	**-**	**9**	**102**	**111**	**-**	**-**	**10**	**147**	**157**
Listed	-	-	-	-		-	-	-	-	-
Unlisted	-	-	9	102	111	-	-	10	147	157
Equity holdings	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	**-**
Total	**1,020**	**245**	**23**	**7,977**	**9,265**	**1,464**	**186**	**25**	**9,961**	**11,636**

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

Securities lending and repurchase transactions are disclosed in Note 35. Transfers of financial assets-repurchase transactions and securities lending.

18. 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 2019 and 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
2019									
General governments	1,644	-	-	1,644	(2)	-	-	(2)	1,642
Total	**1,644**	**-**	**-**	**1,644**	**(2)**	**-**	**-**	**(2)**	**1,642**

									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
2019									
General governments	1,465	-	-	1,465	(1)	-	-	(1)	1,464
Total	**1,465**	**-**	**-**	**1,465**	**(1)**	**-**	**-**	**(1)**	**1,464**

									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 2020 to 2028 and bear coupon interest from 0.500% to 6.500% p.a.
The fair value of financial assets at amortized cost for the Group and the Bank is approximately HRK 46 million higher than their carrying amount as at 31 December 2019 (2018: HRK 20.5 million higher).
There are no purchased or originated credit-impaired (POCI) debt securities at AC as of 31 December 2019 and 31 December 2018.

18. Financial assets at amortised cost (continued)

Debt securities at amortised cost (continued)

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

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

							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)**

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

							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 2019 and not sold by 31 December 2019 amounts to HRK 547 million for the Group and for the Bank (2018: HRK 89 million for the Group and for the Bank).
The GCA of AC debt securities that were held at 1 January 2019 and de-recognized (matured) during the year 2019 amounts to HRK 182 million for the Group and HRK 104 million for the Bank (2018: HRK 468 million for the Group and for the Bank).

18. Financial assets at amortised cost (continued)

Loans and advances at amortised cost to banks

The analysis of the GCA and of related CLA of Group's and Bank's loans and advances at AC to banks per impairment buckets as of 31 December 2019 and 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
2019									
Central banks	3,872	-	-	3,872	(2)	-	-	(2)	3,870
Credit institutions	500	-	-	500	(3)	-	-	(3)	497
Total	**4,372**	**-**	**-**	**4,372**	**(5)**	**-**	**-**	**(5)**	**4,367**

									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
2019									
Central banks	3,767	-	-	3,767	(1)	-	-	(1)	3,766
Credit institutions	497	-	-	497	(3)	-	-	(3)	494
Total	**4,264**	**-**	**-**	**4,264**	**(4)**	**-**	**-**	**(4)**	**4,260**

									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 2019 and 31 December 2018.

18. 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 2019						**Dec 2019**
Stage 1	(6)	(3)	4	-	-	-	(5)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(6)**	**(3)**	**4**	**-**	**-**	**-**	**(5)**

							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 2019						**Dec 2019**
Stage 1	(5)	(3)	4	-	-	-	(4)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(5)**	**(3)**	**4**	**-**	**-**	**-**	**(4)**

							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 2019 and not fully de-recognized by 31 December 2019 amounts to HRK 450 million for the Group and for the Bank (2018: HRK 1,575 million for the Group and HRK 1,752 million for the Bank). The GCA of AC loans and advances to banks that were held at 1 January 2019 and fully derecognized (matured) during the year 2019 amounts to HRK 1,571 million for the Group and HRK 1,748 million for the Bank (2018: HRK 2,110 million for the Group and HRK 1,883 million for the Bank).

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

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

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**

18. Financial assets at amortised cost (continued)

Loans and advances at amortized cost to customers (continued)

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

GROUP

in HRK million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	As of
	Jan 2019								Dec 2019
Stage 1	**(316)**	**(99)**	**45**	**43**	**7**	**-**	**-**	**(2)**	**(322)**
General governments	(104)	(22)	6	-	12	-	-	(1)	(109)
Other financial corporations	(18)	(1)	18	-	-	-	-	-	(1)
Non-financial corporations	(105)	(46)	12	10	(4)	-	-	(1)	(134)
Households	(89)	(30)	9	33	(1)	-	-	-	(78)
Stage 2	**(178)**	**(2)**	**17**	**(105)**	**112**	**-**	**-**	**-**	**(156)**
General governments	-	-	-	(2)	-	-	-	-	(2)
Other financial corporations	(1)	-	-	-	1	-	-	-	-
Non-financial corporations	(55)	(1)	8	(41)	15	-	-	-	(74)
Households	(122)	(1)	9	(62)	96	-	-	-	(80)
Stage 3	**(2,449)**	**(10)**	**149**	**(26)**	**(216)**	**-**	**496**	**(6)**	**(2,062)**
General governments	-	-	-	-	-	-	-	(1)	(1)
Other financial corporations	(1)	-	-	-	-	-	-	1	-
Non-financial corporations	(1,302)	(6)	69	(12)	(107)	-	297	(3)	(1,064)
Households	(1,146)	(4)	80	(14)	(109)	-	199	(3)	(997)
POCI	**(46)**	**-**	**1**	**-**	**(63)**	**-**	**-**	**-**	**(108)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(44)	-	1	-	(65)	-	-	-	(108)
Households	(2)	-	-	-	2	-	-	-	-
Total	**(2,989)**	**(111)**	**212**	**(88)**	**(160)**	**-**	**496**	**(8)**	**(2,648)**

GROUP

in HRK million	As of	Additions	Derecognitions	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)**

18. Financial assets at amortised cost (continued)

Loans and advances at amortized cost to customers (continued)

									BANK
in HRK million	**As of**	**Additions**	**Derecognitions**	**Transfers between stages**	**Other changes in credit risk (net)**	**Insignificant modifications (net)**	**Write-offs**	**Other**	**As of**
	Jan 19								**Dec 19**
Stage 1	**(276)**	**(88)**	**39**	**37**	**2**	**-**	**-**	**-**	**(286)**
General governments	(101)	(23)	6	-	12	-	-	-	(106)
Other financial corporations	(19)	(1)	18	1	(1)	-	-	-	(2)
Non-financial corporations	(94)	(40)	9	6	(3)	-	-	-	(122)
Households	(62)	(24)	6	30	(6)	-	-	-	(56)
Stage 2	**(161)**	**(1)**	**15**	**(96)**	**103**	**-**	**-**	**-**	**(140)**
General governments	-	-	-	(1)	-	-	-	-	(1)
Other financial corporations	(2)	-	-	-	2	-	-	-	-
Non-financial corporations	(52)	-	7	(38)	14	-	-	-	(69)
Households	(107)	(1)	8	(57)	87	-	-	-	(70)
Stage 3	**(2,280)**	**(8)**	**140**	**(19)**	**(205)**	**-**	**461**	**(5)**	**(1,916)**
General governments	-	-	-	-	-	-	-	(1)	(1)
Other financial corporations	(1)	-	-	-	-	-	-	2	1
Non-financial corporations	(1,246)	(5)	64	(11)	(103)	-	291	(3)	(1,013)
Households	(1,033)	(3)	76	(8)	(102)	-	170	(3)	(903)
POCI	**(46)**	**-**	**1**	**-**	**(62)**	**-**	**-**	**-**	**(107)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(44)	-	1	-	(64)	-	-	-	(107)
Households	(2)	-	-	-	2	-	-	-	-
Total	**(2,763)**	**(97)**	**195**	**(78)**	**(162)**	**-**	**461**	**(5)**	**(2,449)**

									BANK
in HRK million	**As of**	**Additions**	**Derecognitions**	**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 2019 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2019 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse (incremental year-on-year allocations) and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favourable (incremental year-on-year releases) and presented in the line ‘Stage 1’.

18. Financial assets at amortised cost (continued)

Loans and advances at amortized cost to customers (continued)

The profit and loss neutral effect from cross-stage transferring of the related CLA amounts recognized prior to stage re-assignments are presented above in the column '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 HRK 35 million for the Group and HRK 28 million for the Bank cumulatively for the year 2019, (2018: HRK 42 million for the Group and HRK 28 million for the Bank), which also reflects the unrecognized interest income out of the related AC loans and advances to customers throughout the year. The column 'Insignificant modifications (net)' reflects the effect on CLA arising from contractual modifications of loans and advances to customers at AC which do not trigger their full derecognition. The use of CLA triggered by full or partial write-offs of AC loans and advances to customers is reported in columns 'Write-offs'.

One significant driver of the CLA movements for the year has been the transfer of the related instruments across different impairment stages. The year-end GCA of AC loans and advances to customers that were assigned at 31 December 2019 to a different stage compared to 1 January 2019 (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
								2019
General governments	37	5	-	-	-	-	-	-
Other financial corporations	2	-	-	-	-	-	-	-
Non-financial corporations	654	116	169	1	117	15	59	25
Households	554	885	176	38	276	34	-	6
Total	**1,247**	**1,006**	**345**	**39**	**393**	**49**	**59**	**31**

								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
								2018
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**

18. Financial assets at amortised cost (continued)

Loans and advances at amortized cost to customers (continued)

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

								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
								2018
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 2019 and not fully de-recognized by 31 December 2019 amounts to HRK 13,874 million for the Group and HRK 13,017 million for the Bank (2018: HRK 17,973 million for the Group and HRK 17,604 million for the Bank). The GCA of the AC loans and advances to customers that were held at 1 January 2019 and fully de-recognized (mainly due to matured) during the year 2019 amounts to HRK 5,904 million for the Group and HRK 5,852 million for the Bank (2018: HRK 8,242 million for the Group and HRK 7,959 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 2019 amounted to HRK 72 million for the Group and HRK 62 million for the Bank (2018: HRK 83 million for the Group and HRK 67 million for the Bank).

19. Finance lease receivables

The analysis of the GCA and of related CLA of finance lease receivables per impairment buckets as of 31 December 2019 and 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
2019											
Central banks	-	-	-	-	-	-	-	-	-	-	-
General governments	31	-	-	-	31	-	-	-	-	-	31
Credit institutions	2	-	-	-	2	-	-	-	-	-	2
Other financial corporations	13	-	-	-	13	-	-	-	-	-	13
Non-financial corporations	1,844	77	42	-	1,963	(5)	(1)	(17)	-	(23)	1,940
Households	428	37	5	-	470	-	(1)	(2)	-	(3)	467
Total	**2,318**	**114**	**47**	**-**	**2,479**	**(5)**	**(2)**	**(19)**	**-**	**(26)**	**2,453**

											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 2019								**Dec 2019**
Stage 1	(4)	(5)	-	1	3	-	-	-	(5)
Stage 2	(3)	-	-	(1)	2	-	-	-	(2)
Stage 3	(19)	-	2	(1)	(1)	-	-	-	(19)
POCI	-	-	-	-	-	-	-	-	-
Total	**(26)**	**(5)**	**2**	**(1)**	**4**	**-**	**-**	**-**	**(26)**

									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)**

19. Finance lease receivables (continued)

In the column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered reassignments of the related finance lease receivables from Stage 1 at 1 January 2019 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2019 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse (incremental year-on-year allocations) and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favourable (incremental year-on-year releases) and presented in the line 'Stage 1'. The profit and loss neutral effect from cross-stage transferring of the related CLA amounts recognized prior to stage re-assignments are presented above in the column 'Other changes in credit risk (net) Any other changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column 'Other changes in credit risk (net)'.

One significant driver of the CLA movements for the year has been the transfer of the related instruments across impairment stages. The year-end GCA of finance lease receivables that were assigned at 31 December 2019 to a different stage compared to 1 January 2019 (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	**2019**
Transfers between Stage 1 and Stage 2	**118**
To Stage 2 from Stage 1	82
To Stage 1 from Stage 2	36
Transfers between Stage 2 and Stage 3	**7**
To Stage 3 from Stage 2	7
To Stage 2 from Stage 3	-
Transfers between Stage 1 and Stage 3	**13**
To Stage 3 from Stage 1	12
To Stage 1 from Stage 3	1

	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 2019 and not fully derecognized by 31 December 2019 amounts to HRK 1,170 million for the Group and nil for the Bank (2018: HRK 1,019 million for the Group and nil for the Bank). The GCA of the finance lease receivables that were held at 1 January 2019 and fully derecognized (matured) during the year 2019 amounts to HRK 277 million for the Group and nil for the Bank (2018: HRK 168 million for the Group and nil for the Bank).

20. Trade and other receivables

GROUP

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

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	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

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

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	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**

20. Trade and other receivables (continued)

Allowances for trade and other receivables

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

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

BANK									
in HRK million	As of	Additions	Derecognitions	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)**

20. 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 2019 to a different stage compared to 1 January 2019 (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	**2019**
Transfers between Stage 1 and Stage 2	**318**
To Stage 2 from Stage 1	266
To Stage 1 from Stage 2	52
Transfers between Stage 2 and Stage 3	**31**
To Stage 3 from Stage 2	26
To Stage 2 from Stage 3	5
Transfers between Stage 1 and Stage 3	**63**
To Stage 3 from Stage 1	63
To Stage 1 from Stage 3	-

	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	**2019**
Transfers between Stage 1 and Stage 2	**4**
To Stage 2 from Stage 1	4
To Stage 1 from Stage 2	-
Transfers between Stage 2 and Stage 3	**2**
To Stage 3 from Stage 2	2
To Stage 2 from Stage 3	-
Transfers between Stage 1 and Stage 3	**10**
To Stage 3 from Stage 1	10
To Stage 1 from Stage 3	-

	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	-

20. Trade and other receivables (continued)

The year-end total GCA of the trade and other receivables that were initially recognized during the year 2019 and not fully de-recognized by 31 December 2019 amounts to HRK 838 million for the Group and HRK 48 million for the Bank (2018: HRK 62 million for the Group and HRK 20 million for the Bank). The GCA of the trade and other receivables that were held at 1 January 2019 and fully de-recognized (matured) during the year 2019 amounts to HRK 768 million for the Group and HRK 43 million for the Bank (2018: HRK 1,042 million for the Group and HRK 20 million for the Bank).

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

As at 31 December 2019, the total GCA of debt instruments measured at AC or FVOCI, which were impacted by non-significant contractual modifications during the year 2019 amounted to HRK 32 million for the Group and for the Bank (2018: HRK 21 million for the Group and the Bank).
The impact of contractual modifications (net modification losses) in the profit or loss of the year 2019 amounted to HRK 1 million for the Group and for the Bank (2018: HRK 328 thousand for the Group and the Bank).

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

		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**
2019		
Loans and advances		
Non-financial corporations	2	-
Households	30	1
Total	**32**	**1**

		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**	**-**

22. 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		2018	2019	2018	2019	2018	2019
Erste Nekretnine d.o.o.	Real estate business	100%	100%	8	7	1	1
Erste Factoring d.o.o.	Accounts receivables repurchase	100%	100%	8	13	98	98
Erste Card Club d.o.o.	Financial intermediation and services	100%	100%	1,070	1,157	659	659
Izbor Nekretnina d.o.o.	Real estate management and lease	100%	100%	40	41	40	40
Erste Bank AD, Podgorica	Credit institution	100%	100%	561	676	100	100
Erste&Steiermarkische S-leasing d.o.o.	Leasing company	50%	50%	337	373	89	89
Erste Group IT HR d.o.o.	IT engineering	80%	80%	8	9	2	2
Direct control				2,032	2,276	989	989
Erste Card d.o.o. Slovenia	Financial intermediation and services	100%	100%	21	27	24	24
Diners Club International Mak d.o.o.e.l.	Financial intermediation and services	100%	100%	13	14	7	7
Indirect control				34	41	31	31
Total subsidiaries:				**2,066**	**2,317**	**1,020**	**1,020**

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. In 2018 impairment was allocated on the investment in Erste Card Club d.o.o.

Associates	S Immorent Zeta d.o.o.		Erste d.o.o.	
Country of Incorporation	Croatia		Croatia	
Place of business	Croatia		Croatia	
Main business activity	Real estate business		Management company for obligatory and voluntary pension fund	
in HRK million	**2018**	**2019**	**2018**	**2019**
Ownership % held	49%	-	45.86%	45.86%
IFRS Classification	Associate	-	Associate	Associate
Reporting currency	HRK	-	HRK	HRK
Dividend income received	-	-	10	10
Impairment loss recognized (cumulative basis)	12	-	10	-
Impairment loss recognized (for the reporting year)	-	-	-	-
Investee's key financial information for the reporting year (as at reporting-year-end)				
Financial assets	1	-	112	105
Other assets	-	-	8	15
Financial liabilities	-	-	-	-
Other liabilities	-	-	(9)	(13)
Revenue	-	-	69	67
Expense	-	-	(39)	(42)
Investment at cost	-	-	38	38
Reconciliation of investee's net assets against equity investment's carrying amount	-	-	22	20
Net assets attributable to the Group	-	-	60	58

S Immorent Zeta d.o.o. was sold in February 2019.

23. 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 2018	**873**	**327**	**306**	**720**	**2,226**	**70**
Additions (+)	20	36	115	98	269	3
Disposals (-)	(8)	(27)	(59)	(223)	(317)	(8)
Balance as at 31 December 2018	**885**	**336**	**362**	**595**	**2,178**	**65**
Additions (+)	40	32	53	95	220	-
Disposals (-)	(14)	(23)	(38)	(187)	(262)	(24)
Reclassification	(1)	2	(2)	-	(1)	1
Balance as at 31 December 2019	**910**	**347**	**375**	**503**	**2,135**	**42**

Rights of use – at 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 2019	**81**	**6**	**-**	**-**	**87**	**-**
Additions (+)	32	1	-	-	33	-
Disposals (-)	(3)	(4)	-	-	(7)	-
Balance as at 31 December 2019	**110**	**3**	**-**	**-**	**113**	**-**

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 2018	**(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)**
Depreciation (-)	(19)	(27)	(52)	(78)	(176)	(1)
Disposals (+)	6	22	37	125	190	12
Impairment	-	-	(2)	-	(2)	(3)
Reclassification	1	-	-	-	1	(1)
Balance as at 31 December 2019	**(285)**	**(243)**	**(206)**	**(186)**	**(920)**	**(9)**

Rights of use – 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 2019	**-**	**-**	**-**	**-**	**-**	**-**
Depreciation (-)	(16)	(1)	-	-	(17)	-
Disposals (+)	-	-	-	-	-	-
Balance as at 31 December 2019	**(16)**	**(1)**	**-**	**-**	**(17)**	**-**

23. Property, equipment and Investment properties (continued)

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 2018	612	98	173	362	1,245	49
Balance as at 31 December 2019	625	104	169	317	1,215	33

Rights of use – 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 01 January 2019	81	6	-	-	87	-
Balance as at 31 December 2019	94	2	-	-	96	-

23.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 2018	**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**
Additions (+)	32	30	47	-	109	-
Disposals (-)	(14)	(19)	(11)	-	(44)	(22)
Balance as at 31 December 2019	**735**	**294**	**218**	**-**	**1,247**	**8**

Rights of use – at 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 2019	**76**	**12**	**-**	**-**	**88**	**-**
Additions (+)	31	7	-	-	38	-
Disposals (-)	(3)	(4)	-	-	(7)	-
Balance as at 31 December 2019	**104**	**15**	**-**	**-**	**119**	**-**

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 2018	**(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)**
Depreciation (-)	(15)	(23)	(32)	-	(70)	-
Disposals (+)	7	20	10	-	37	11
Impairment	-	-	-	-	-	(3)
Balance as at 31 December 2019	**(256)**	**(206)**	**(84)**	**-**	**(546)**	**(5)**

Rights of use – 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 2019						
Depreciation (-)	(14)	(3)	-	-	(17)	-
Disposals (+)	-	-	-	-	-	-
Balance as at 31 December 2019	**(14)**	**(3)**	**-**	**-**	**(17)**	**-**

23. Property, equipment and Investment properties (continued)

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 2018	469	80	120	-	669	17
Balance as at 31 December 2019	479	88	134	-	701	3

Rights of use – 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 01 January 2019	76	12	-	-	88	-
Balance as at 31 December 2019	90	12	-	-	102	-

The carrying amount of expenditure recognised in the items fixed assets during their construction in 2019 is HRK 138 million for the Group and the Bank (2018: HRK 58 million for the Group and the Bank). The contractual commitments for purchase of fixed assets are HRK 5 million for the Group and the Bank as at 31 December 2019 (2018 HRK 18 million for the Group and the Bank).
Tangible asset under operating leasing for the Group as at 31 December 2019 amounted to HRK 341 million (2018: HRK 364 million).

24. 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 2018	**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**
Additions (+)	-	-	25	33	58
Disposals (-)	-	-	-	(2)	(2)
Balance as at 31 December 2019	**607**	**181**	**262**	**289**	**1,339**

B) ACCUMULATED AMORTIZATION

					GROUP
		Accumulated depreciation			
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2018	**(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)**
Amortisation (-)	-	-	(26)	(28)	(54)
Disposals (+)	-	-	-	2	2
Impairment (-)	-	-	-	-	-
Balance as at 31 December 2019	**(435)**	**(181)**	**(155)**	**(192)**	**(963)**

C) CARRYING AMOUNTS

					GROUP
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 31 December 2018	**172**	**-**	**108**	**92**	**372**
Balance as at 31 December 2019	**172**	**-**	**107**	**97**	**376**

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

24. Intangible assets (continued)

A) AT COST

					BANK
		Acquisition costs			
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2018	-	-	172	94	266
Additions (+)	-	-	14	18	32
Disposals (-)	-	-	-	(3)	(3)
Balance as at 31 December 2018	-	-	186	109	295
Additions (+)	-	-	19	9	28
Disposals (-)	-	-	-	(1)	(1)
Balance as at 31 December 2019	-	-	205	117	322

B) ACCUMULATED AMORTIZATION

					BANK
		Accumulated depreciation			
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2018	-	-	(82)	(73)	(155)
Amortisation (-)	-	-	(17)	(5)	(22)
Disposals (+)	-	-	-	2	2
Balance as at 31 December 2018	-	-	(99)	(76)	(175)
Amortisation (-)	-	-	(20)	(7)	(27)
Disposals (+)	-	-	-	1	1
Balance as at 31 December 2019	-	-	(119)	(82)	(201)

C) CARRYING AMOUNTS

					BANK
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 31 December 2018	-	-	87	33	120
Balance as at 31 December 2019	-	-	86	35	121

Software acquired column relates to core banking system.

24. Intangible assets (continued)

Goodwill

The goodwill impairment assessment for the year 2019 and 2018 addresses 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 2019 till 2024. Discount rate applied to determine the value in use was 12.20% (2018: 13.30%).

Erste Card Club d.o.o. has recorded stable development of business in previous years which is expected to continue throughout the planning cycle. In challenging environment, ECC is managing to offset margin pressure (e.g. Merchant fees) through digitalization process supported by digital marketing campaigns. Those actions are expected to be reflected through further increase of on-line sale and volume growth – positive results are already visible in 2019. Better customer experience is going to be achieved with further efficiency and optimization processes which are aiming to improve internal flow of information and achieve overall business goals (i.e. further enhancement of ECC Mobile app, D Club rewards program, keeping high standards demanded by certificate of PCI Security Council, and many other goals).

All mentioned information were taken into consideration in impairment tests which has shown that current investment in ECC is justified and no impairment is needed.

The following table shows the sensitivity analysis of the recoverable value dependent of investment in Erste Card Club d.o.o. for 2019 and 2018 on the main variables (terminal growth rate, beta factor and risk free rate):

2019		Risk free rate	
Beta Factor	(0.87%)	0.13%	1.13%
0.88	2,321	2,080	1,897
1.18	1,841	1,709	1,601
1.48	1,567	1,482	1,410

2019		Risk free rate	
TV growth rate	(0.87%)	0.13%	1.13%
2%	1,719	1,671	1,626
3%	1,759	1,709	1,662
4%	1,810	1,758	1,708

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. was HRK 44 million.

25. Tax assets and liabilities

GROUP

in HRK million	Tax assets		Tax liabilities		Net variance 2019		
	As of Dec 2019	As of Dec 2018	As of Dec 2019	As of Dec 2018	Total	Through profit or loss	Through other comprehensive income
Temporary differences related to the following items:							
Trading Assets / Liabilities and Designation at fair value through Profit or Loss	7	6	-	-	1	1	-
Financial assets at fair value through other comprehensive income	-	-	(75)	(49)	(26)	-	(25)
Financial assets at amortised cost & trade & other receivables	129	160	-	-	(31)	(31)	-
Derivatives - Hedge Accounting	-	-	-	-	-	-	-
Property and equipment (useful life in tax law different)	-	1	(1)	-	(2)	(2)	-
Amortisation of investments in subsidiaries (tax-effective in subsequent years)	91	90	-	-	1	1	-
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)	3	1	-	1	1	1	-
Tax loss carry-forward	15	-	-	-	15	15	-
Customer relationships, brands and other intangibles	-	-	-	-	-	-	-
Other	63	58	-	-	5	5	-
Impairment	(51)	(51)	-	-	-	-	-
Effect of netting gross deferred tax position	(71)	(47)	71	47	-	-	-
Total deferred taxes	**187**	**219**	**(5)**	**(2)**	**(35)**	**(9)**	**(25)**
Current taxes	**12**	**10**	**(24)**	**(106)**	**(220)**	**(220)**	**-**
Total taxes	**199**	**229**	**(29)**	**(108)**	**(255)**	**(229)**	**(25)**

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**

25. Tax assets and liabilities (continued)

BANK

in HRK million	Tax assets		Tax liabilities		Net variance 2019		
	As of Dec 2019	As of Dec 2018	As of Dec 2019	As of Dec 2018	Total	Through profit or loss	Through other comprehensive income
Temporary differences related to the following items:							
Trading Assets / Liabilities and Designation at fair value through Profit or Loss	7	6	-	-	1	1	-
Financial assets at fair value through other comprehensive income	-	-	(69)	(45)	(24)	-	(24)
Financial assets at amortised cost & trade & other receivables	14	15	-	-	(1)	(1)	-
Derivatives - Hedge Accounting	-	-	-	-	-	-	-
Property and equipment (useful life in tax law different)	-	-	-	-	-	-	-
Amortisation of investments in subsidiaries (tax-effective in subsequent years)	81	82	-	-	(1)	(1)	-
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	40	27	-	-	14	14	-
Impairment	-	-	-	-	-	-	-
Effect of netting gross deferred tax position	(69)	(45)	69	45	-	-	-
Total deferred taxes	**75**	**87**	**-**	**-**	**(11)**	**13**	**(24)**
Current taxes	**-**	**-**	**(8)**	**(81)**	**(179)**	**(179)**	**-**
Total taxes	**75**	**87**	**(8)**	**(81)**	**(190)**	**(166)**	**(24)**

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.

26. Other assets

	GROUP		BANK	
in HRK million	**2018**	**2019**	**2018**	**2019**
Prepayments and accrued income	16	18	4	5
Inventories	485	395	453	364
Value adjustments of inventories	(82)	(74)	(57)	(47)
Sundry assets	135	132	28	34
Other assets	**554**	**471**	**428**	**356**

In the line Inventories the Group holds collateral obtained in foreclosure procedures which the Group has the intention to sell in upcoming years.
In 2019 the Group and the Bank recognised write down of inventories in amount of HRK 15 million (2018: HRK 14 million) and HRK 8 million (2018: HRK 8 million), respectively.

27. Financial liabilities measured at amortised costs

Deposits from banks

	GROUP		BANK	
in HRK million	**2018**	**2019**	**2018**	**2019**
Overnight deposits	384	152	381	148
Term deposits	7,282	7,757	3,436	3,449
Subordinated loan	1,265	1,269	1,265	1,269
Repurchase agreements	-	636	-	409
Deposits from banks	**8,931**	**9,814**	**5,082**	**5,275**

27. Financial liabilities measured at amortised costs (continued)

Deposits from customers

	GROUP		BANK	
in HRK million	**2018**	**2019**	**2018**	**2019**
Overnight deposits	**25,831**	**29,657**	**24,683**	**27,786**
Savings deposits	1,700	2,253	1,700	2,253
Other financial corporations	1	-	1	-
Non-financial corporations	370	419	370	419
Households	1,329	1,834	1,329	1,834
Non-savings deposits	24,131	27,404	22,983	25,533
General governments	1,342	1,812	1,263	1,729
Other financial corporations	579	866	992	745
Non-financial corporations	8,932	9,641	8,432	8,929
Households	13,278	15,085	12,296	14,130
Term deposits	**23,366**	**21,668**	**22,300**	**20,669**
Deposits with agreed maturity	23,155	21,359	22,089	20,360
Savings deposits	20,503	18,586	20,001	18,200
Other financial corporations	1,548	987	1,657	1,108
Non-financial corporations	1,522	1,397	1,522	1,397
Households	17,433	16,202	16,822	15,695
Non-savings deposits	2,652	2,773	2,088	2,160
General governments	2,245	2,342	2,088	2,160
Other financial corporations	81	199	-	-
Non-financial corporations	322	232	-	-
Households	4	-	-	-
Deposits redeemable at notice	211	309	211	309
General governments	3	8	3	8
Other financial corporations	2	10	2	10
Non-financial corporations	144	169	144	169
Households	62	122	62	122
Repurchase agreements	**-**	**-**	**-**	**-**
General governments	-	-	-	-
Non-financial corporations	-	-	-	-
Deposits from customers	**49,197**	**51,325**	**46,983**	**48,455**
General governments	3,590	**4,162**	3,354	**3,897**
Other financial corporations	2,211	**2,062**	2,652	**1,863**
Non-financial corporations	11,290	**11,858**	10,468	**10,914**
Households	32,106	**33,243**	30,509	**31,781**
Other financial liabilities	**889**	**879**	**202**	**127**

Debt securities issued

	GROUP		BANK	
in HRK million	**2018**	**2019**	**2018**	**2019**
Debt securities issued	670	672	670	672
Bonds	670	672	670	672
Debt securities issued	**670**	**672**	**670**	**672**

27. Financial liabilities measured at amortised costs (continued)

On 31 December 2019, long-term funding amounted EUR 944 million which is for EUR 17 million lower in comparison to 31 December 2018. Domestic funding amounted EUR 355 million, which includes EUR 265 million of funding from CBRD (HBOR) and EUR 90 million of issued senior bond. Funding from the foreign banks amounted EUR 589 million and it includes EUR 248 million of intra-group funding, EUR 170 million of subordinated loans and EUR 172 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 in 2019 is +1.27% (2018: +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 2019 and 2018.

28. Provisions

	GROUP		BANK	
in HRK million	2018	2019	2018	2019
Long-term employee provisions	12	13	8	9
Pending legal issues	78	377	68	364
Provision for commitments and guarantees given	94	104	69	80
CLA for loan commitments and financial guarantees in Stage 1	46	67	37	54
CLA for loan commitments and financial guarantees in Stage 2	17	15	7	13
CLA for loan commitments and financial guarantees - Defaulted	31	22	25	13
Other provision	21	-	21	-
Provisions	**205**	**494**	**166**	**453**

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 2019						Dec 2019
Stage 1	46	71	(12)	(1)	(37)	-	67
Stage 2	17	-	(8)	5	1	-	15
Defaulted	31	-	(8)	5	(6)	-	22
Total	**94**	**71**	**(28)**	**9**	**(42)**	**-**	**104**

							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 2019						Dec 2019
Stage 1	37	63	(10)	-	(36)	-	54
Stage 2	7	-	(8)	4	10	-	13
Defaulted	25	-	(8)	4	(8)	-	13
Total	**69**	**63**	**(26)**	**8**	**(34)**	**-**	**80**

							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**

28. Provisions (continued)

b) Long-term employee provisions

			GROUP
in HRK million	**Pensions**	**Jubilee payments**	**Total**
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**
Service cost	-	1	1
Interest cost	-	-	-
Payments	-	(1)	(1)
Components recognised in other comprehensive income (Remeasurements)	1	-	1
Actuarial gains/(losses) arising from changes in financial assumptions	1	-	1
Present value of long-term employee benefit obligations, 31 December 2019	**5**	**8**	**13**

			BANK
in HRK million	**Pensions**	**Jubilee payments**	**Total**
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**
Service cost	-	1	1
Interest cost	-	-	-
Payments	-	-	-
Components recognised in other comprehensive income (remeasurements)	-	-	-
Actuarial gains/(losses) arising from changes from experience assumptions	-	-	-
Present value of long-term employee benefit obligations, 31 December 2019	**3**	**6**	**9**

Actuarial assumptions

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

in %	**2018**	**2019**
Interest rate	3.25	3.06
Expected increase in retirement benefits	7.10	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 2019.

in HRK million	**Pensions**	**Jubilee payments**	**Total**
Change in discount rate + 1.0 %	2	6	8
Change in discount rate - 1.0 %	3	6	9

28. 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
2020	-	1	1
2021	-	-	-
2022	-	-	-
2023	-	1	1
2024	-	-	-
2025 - 2029	1	1	2

Duration

The following table presents the weighted average duration of the defined-benefit obligations as of year-end 2019:

in years	Pensions	Jubilee payments	Total
Duration	15.39	10.72	13.06

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

Sundry provisions 2019

						GROUP
in HRK million	2018	Allocations	Use	Releases	Exchange rate	2019
Pending legal issues	78	307	(1)	(8)	1	377
Other provision	21	-	-	(21)	-	-
Total	**99**	**307**	**(1)**	**(29)**	**1**	**377**

						BANK
in HRK million	2018	Allocations	Use	Releases	Exchange rate	2019
Pending legal issues	68	301	-	(6)	1	364
Other provision	21	-	-	(21)	-	-
Total	**89**	**301**	**-**	**(27)**	**1**	**364**

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**

28. Provisions (continued)

In the ordinary course of business, the Group is subject to legal actions and complaints. As there are still numerous uncertainties with respect to the outcome of related ongoing individual proceedings and different interpretations of relevant court decisions, possible adverse effects of such decisions cannot be ruled out, but to the extent which would be difficult to quantify.
In 2015 the Supreme Court of the Republic of Croatia, in a proceeding initiated 2012 by a local consumer protection association against eight Croatian banks incl. Erste Bank (hereinafter: Collective case), upheld the second instance verdict by which FX clauses in loan agreements with consumers were confirmed as valid but contractual provisions permitting unilateral change of the variable interest rates in CHF denominated consumer loans, used by the majority of sued banks until 2008, are null and void. In late 2016 Constitutional Court of the Republic of Croatia rescinded the part of the Supreme Court's decision relating to the validity of FX clauses, while it upheld the verdict regarding the (in) validity of the interest rate clause. In late 2017 the Supreme Court rescinded the second instance decision and returned the case with respect to the FX clause for a retrial to the court of second instance. In June 2018 after a retrial before the court of second instance, a verdict is reached upon which first instance verdict is confirmed, namely, the court ruled that that collective interests of the consumers have been breached and the Swiss franc contractual clause in loan contracts concluded between 2004 and 2008 was ruled as null and void (formally final verdict). The Bank filed an extraordinary remedy (judicial review) against the second instance court decision from July 2018. On September 3rd 2019 Supreme Court of the Republic of Croatia reached a verdict by which the Supreme Court rejected judicial review of defendant banks. The Bank appealed to such decision by filing constitutional complaint on October 22nd 2019 to the Constitutional Court of the Republic of Croatia. The Bank has followed the guidance of IAS 37: Provisions, Contingent Liabilities and Contingent Assets and recognized the provision for expected expense.

The Bank considers that, in relation to its financial position, possible material adverse effects of the verdicts reached in the Collective case had already been absorbed to the great extent within the framework of adjustment to the requirements as well as the conversion performed accordingly to the Consumer Credit Act (OG 75/09, 112/12, 143/13, 147/13, 09/15, 78/15, 102/15, 52/16) and the Credit Institutions Act (OG 159/2013, 19 / 2015, 102/2015). We are of an opinion that such standing of the Bank has been confirmed in the so-called Precedent proceeding conducted before the Supreme Court of the Republic of Croatia since December 2019, as the Court in March 2020 ruled that the conversion annexes are valid, despite the fact that the contractual provisions on the variable interest rate in the CHF denominated consumer loans and CHF FX clause were declared as null and void in the Collective case.

In April 2019 the Bank received a verdict of the court of second instance altering initial decision in a civil litigation brought against the Bank as a defendant, whereas under such altered decision the Bank has been ordered to pay the principal amount together with the statutory default interest from 2011 until the date of payment, along with litigation costs. As a result, in 2019 the Bank recognised additional provisions of HRK 187 million. In April 2019 the Bank filed extraordinary legal remedy (judicial review) to the Supreme Court of the Republic of Croatia.

29. Other liabilities

	GROUP		BANK	
in HRK million	**2018**	**2019**	**2018**	**2019**
Prepayments received from debtors	185	199	162	172
Salaries and bonuses payable	180	199	146	159
Deferred income and accrued fee expenses	101	96	5	5
Payables to State Agency for deposit	21	22	18	19
Sundry liabilities	116	125	82	72
Other liabilities	**603**	**641**	**413**	**427**

30. Total equity

Share capital

As at 31 December 2019 and 2018 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

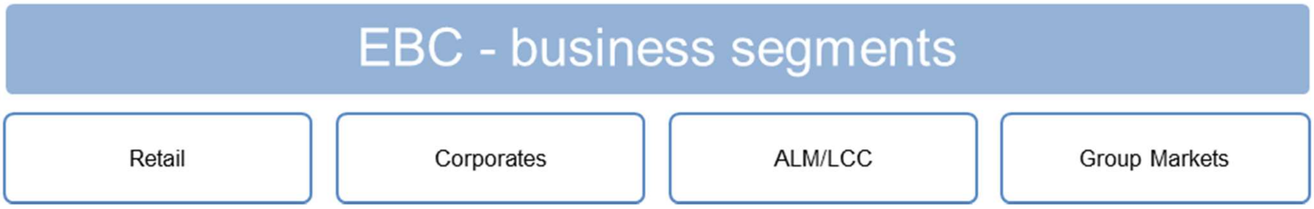
The Bank's distributable and non-distributable reserves are determined by regulations of the CNB. As at 31 December 2019 the legal reserves of the Bank disclose non-distributable reserves of HRK 85 million, as at 31 December 2018 legal reserves amounted to HRK 85 million.
Share premium as at 31 December 2019 amounted to HRK 1,801 million and 31 December 2018 amounted to HRK 1,802 million.

Dividends

The dividends for 2019 are subject to approval by shareholders at Annual General Assembly which has not been held as of the date when these consolidated financial statements were authorize for issue. The dividend declared by the Bank for the year 2018 was HRK 17.00 per share (total amount HRK 289 million).

31. Segment reporting

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



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

Corporates segment comprises business done with corporate customers of different turnover size (small and medium-sized enterprises, Local Large Corporate and Group Large Corporate customers) as well as commercial real estate and public sector business. Small and medium-sized enterprises (SE) are clients which are under the responsibility of the local corporate commercial center network, mainly consisting of companies within defined annual turnover thresholds. Local Large Corporates (LLC) are clients with specific annual turnover thresholds (lying above SME thresholds) which are not defined as Group Large Corporate customers according to the Group Large Corporate client list. Group Large Corporates (GLC) are large corporate customers/client groups with substantial operations in core markets/extended core markets of Erste Group. GLC clients are included on the GLC client list. Commercial Real Estate (CRE) covers for example investors in real estate for the purpose of generating income from the rental of individual properties or portfolios of properties, developers of individual properties or portfolios of properties for the purpose of generating capital gains through sale. Public Sector consists of three sets of customers: public sector, public corporations and non-profit sector. In addition, the majority of municipalities are also segmented as Public Sector clients.

Asset Liability Management (ALM) and Local Corporate Center (LCC)
segment includes all asset/liability management functions – local and of Erste Group Bank AG (Holding) – as well as the local corporate centers which comprise all non-core banking business activities such as internal service providers and reconciliation items to local entity results. The corporate center of Erste Group Bank AG is included in the Group Corporate Center segment.

Group Markets segment comprises trading and markets services as well as customer business with financial institutions. It includes all activities related to the trading books of Erste Group, including the execution of trade, market making and short-term liquidity management. In addition, it comprises business connected with servicing financial institutions as clients including custody, depository services, commercial business (loans, cash management, trade and export finance).

31. Segment reporting (continued)

	Retail		Corporates		Group Markets		ALM & LCC		GROUP	
in HRK million	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**
Net interest income	1,498	1,513	776	769	8	4	(209)	(240)	2,073	2,046
Net fee and commission income	473	516	250	268	26	36	(15)	(17)	734	803
Dividend income	-	-	-	-	-	-	1	1	1	1
Net trading and fair value result	92	95	61	59	57	80	11	-	221	234
Gains/losses from financial instruments at FVPL	-	-	-	-	-	-	4	4	4	4
Net result from equity method investments	10	-	-	-	-	-	1	9	11	9
Rental income from investment properties & other operating leases	41	34	76	62	-	-	-	(1)	117	95
General administrative expenses	(1,082)	(1,161)	(404)	(416)	(49)	(39)	(42)	(39)	(1,577)	(1,655)
Other gains/losses from derecognition of financial instruments not at FVPL	-	-	-	-	-	-	28	1	28	1
Impairment result from financial instruments	(27)	50	(230)	(111)	6	17	5	1	(246)	(43)
Other operating result	(19)	17	(14)	(189)	(2)	(1)	(46)	(111)	(81)	(284)
Levies on banking activities	-		-	-	-	-	-	-	-	-
Pre-tax result from continuing operations	**986**	**1,064**	**515**	**442**	**46**	**97**	**(262)**	**(392)**	**1,285**	**1,211**
Income tax	(171)	(187)	(92)	(74)	(8)	(17)	17	49	(254)	(229)
Post-tax result from continuing operations	815	877	423	368	38	80	(245)	(343)	1,031	982
Post-tax result from discontinued operations	-	-	-	-	-	-	-	-	-	-
Net result for the period	**815**	**877**	**423**	**368**	**38**	**80**	**(245)**	**(343)**	**1,031**	**982**
Net result attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	(23)	(20)	**(23)**	**(20)**
Net result attributable to owners of the parent	**815**	**877**	**423**	**368**	**38**	**80**	**(268)**	**(363)**	**1,008**	**962**
Operating income	2,113	2,158	1,163	1,158	91	120	(206)	(244)	3,161	3,192
Operating expenses	(1,082)	(1,161)	(404)	(416)	(49)	(39)	(42)	(39)	(1,577)	(1,655)
Operating result	**1,031**	**997**	**759**	**742**	**42**	**81**	**(248)**	**(283)**	**1,584**	**1,537**
Risk-weighted assets (credit risk, eop)	9,737	10,778	18,410	21,087	254	389	7,864	9,458	36,265	41,712
Average allocated capital	1,516	1,683	2,365	2,514	79	60	1,485	1,599	5,445	5,856
									-	
Cost/income ratio	51%	54%	35%	36%	54%	33%	20%	(16%)	50%	52%
Return on allocated capital	54%	52%	18%	15%	48%	133%	18%	(23%)	19%	16%
Total assets (eop)	22,779	25,650	25,799	26,968	1,442	699	19,671	20,549	69,691	73,866
Total liabilities excluding equity (eop)	34,571	36,211	13,245	14,394	951	802	11,863	12,581	60,630	63,988
Impairments	**(30)**	**48**	**(239)**	**(117)**	**7**	**17**	**(43)**	**(10)**	**(305)**	**(62)**
Net impairment loss on financial assets at AC	(22)	55	(201)	(73)	7	17	4	-	(212)	(1)
Net impairment loss on financial assets at FVOCI	-	-	-	-	-	-	(3)	1	(3)	1
Net impairment loss on finance lease receivables	-	(2)	3	1	-	-	-	-	3	(1)
Net impairment loss on commitments and guarantees given	(6)	(3)	(32)	(40)	-	-	4	1	(34)	(42)
Impairment of goodwill	-	-	-	-	-	-	(44)	-	(44)	-
Net impairment on other non-financial assets	(2)	(2)	(9)	(5)	-	-	(4)	(12)	(15)	(19)

31. Segment reporting (continued)

Measurement

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

Return on asset ratio (ROA) in the Group was 1.3% on 31 December 2019 (2018: 1.5%) and in the Bank 1.2% (2018: 1.4%).

32. Leases

a) Finance leases

Finance leases from the view of the Group as lessor:

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	**2018**	**2019**
Outstanding lease payments	2,263	2,657
Non-guaranteed residual values	-	-
Gross investment	**2,263**	**2,657**
Unrealised financial income	(157)	(178)
Net investment	**2,106**	**2,479**
Present value of non-guaranteed residual values	-	-
Present value of outstanding lease payments	**2,106**	**2,479**

The maturity analysis of lease by residual maturities under IFRS 16:

	GROUP	
	2019	
in HRK million	**Gross investment**	**Present value of outstanding lease payments**
< 1 year	938	861
1-2 years	653	623
2-3 years	489	460
3-4 years	324	300
4-5 years	173	157
> 5 years	80	78
Total	**2,657**	**2,479**

Maturity analysis of leases by residual maturities under IAS 17:

	GROUP	
	2018	
in HRK million	**Gross investment**	**Present value of minimum lease payments**
< 1 year	831	761
1-5 years	1,379	1,293
> 5 years	53	52
Total	**2,263**	**2,106**

For details related to CLAs of finance lease receivables please refer to Note 19 Finance lease receivables. During 2019, Group recognised interest income on lease receivables in the amount of HRK 103 million (2018: HRK 97 million).

32. Leases (continued)

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:

Maturity analysis of lease payments from operating leases under IFRS 16

	GROUP	BANK
in HRK million	**2019**	**2019**
< 1 year	92	5
1-2 years	53	4
2-3 years	37	4
3-4 years	22	4
4-5 years	10	3
> 5 years	2	-
Total	**216**	**20**

During 2019, the Group recognised income relating to variable lease payments in the amount of HRK 95 million. For information about rental income please refer to Note 6 Rental income from investment properties and other operating leases.

Minimum lease payments from operating leases were as follows:

	GROUP	BANK
in EUR million	**2018**	**2018**
< 1 year	89	9
1-5 years	155	22
> 5 years	2	-
Total	**246**	**31**

Operating leases from the view of the Group and the Bank as lessee:

Maturity analysis of lease liabilities under IFRS 16

	GROUP	BANK
in HRK million	**2019**	**2019**
< 1 year	16	19
1 - 5 years	59	63
> 5 years	28	28
Total	**103**	**110**

During 2019, interest expenses on lease liabilities were recognised in the amount of HRK 7 million for the Group and the Bank. In 2019, expenses in the amount of HRK 4 million for the Group and the Bank relating to short term leases, for which the recognition exemption of IFSR 16 applies, were recognised. In addition, expenses amounting to HRK 13 million for the Group and HRK 11 million for the Bank relating to leases of low value items, for which the recognition exemption of IFSR 16 applies, arose.

Total cash outflow for leases in 2019 were HRK 40 million for the Group and HRK 37 million for the Bank.

32. Leases (continued)

Minimum lease payments from operating leases were as follows:

	GROUP	BANK
in HRK million	2018	2018
< 1 year	34	34
1-5 years	112	108
> 5 years	43	41
Total	**189**	**183**

Lease payments from operating leases recognised as expense in the 2018 for the Group amounted to HRK 41 million and for the Bank HRK 39 million.

33. Related-party transactions

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Transactions with related parties are done at arm's length. Therefore, the applicable interest rates and other terms (maturity dates and collateral) represent market conditions.

The parent company (which is also the ultimate controlling parent entity of the entire group) is Erste Group Bank AG, Vienna (EGB). Entity with significant influence on the Group is Steiermärkische Bank und Sparkassen AG. The key management personnel includes Management Board and other executive management while other includes close family members of key management personnel.

As at 31 December 2019 and 31 December 2018, balances outstanding with related parties comprised:

ASSET						GROUP
	Loans and receivables	Derivatives	Other	Loans and receivables	Derivatives	Other
in HRK million			2018			2019
Entity with significant influence on the Group	-	-	1	-	-	2
Key management personnel	5	-	-	13	-	-
Parent company	1,442	11	151	374	6	217
Other EGB companies	3	-	29	4	-	31
Other	1	-	-	1	-	-
Associates	1	1	-	-	-	-
Total assets	**1,452**	**12**	**181**	**392**	**6**	**250**

LIABILITIES						GROUP
	Deposits	Derivatives	Other	Deposits	Derivatives	Other
in HRK million			2018			2019
Entity with significant influence on the Group	3,165	-	-	3,344	-	-
Key management personnel	19	-	-	34	-	-
Parent company	4,183	19	2	4,496	31	2
Other EGB companies	155	-	-	79	-	1
Other	41	-	-	6	-	-
Associates	22	2	-	20	-	-
Total liabilities	**7,585**	**21**	**2**	**7,979**	**31**	**3**

ASSET						BANK
	Loans and receivables	Derivatives	Other	Loans and receivables	Derivatives	Other
in HRK million			2018			2019
Entity with significant influence on the Group	-	-	1	-	-	1
Key management personnel	4	-	-	12	-	-
Parent company	1,359	11	132	374	6	64
Other EGB companies	3	-	3	3	-	3
Other	1	-	-	1	-	-
Subsidiaries	820	1	-	497	1	-
Associates	1	1	-	-	-	-
Total assets	**2,188**	**13**	**136**	**887**	**7**	**68**

LIABILITIES						BANK
	Deposits	Derivatives	Other	Deposits	Derivatives	Other
in HRK million			2018			2019
Entity with significant influence on the Group	1,107	-	-	962	-	-
Key management personnel	18	-	-	36	-	-
Parent company	2,452	19	2	2,611	31	2
Other EGB companies	150	-	-	77	-	1
Other	41	-	-	6	-	-
Subsidiaries	578	-	-	307	-	-
Associates	22	2	-	20	-	-
Total liabilities	**4,368**	**21**	**2**	**4,019**	**31**	**3**

33. Related-party transactions (continued)

Transactions with related parties comprised:

STATEMENT OF PROFIT OR LOSS		GROUP		BANK
in HRK million	2018	2019	2018	2019
Interest income	**34**	**24**	**42**	**29**
Entity with significant influence on the Group	-	-	-	-
Key management personnel	-	-	-	-
Parent company	34	24	33	22
Other EGB companies	-	-	-	-
Subsidiaries	-	-	9	7
Associates	-	-	-	-
Fee income	**35**	**35**	**98**	**106**
Parent company	4	8	3	7
Other EGB companies	28	25	28	24
Subsidiaries	-	-	64	73
Associates	3	2	3	2
Other operating income	**29**	**82**	**20**	**70**
Parent company	5	60	4	57
Subsidiaries	-	-	14	13
Other EGB companies	24	22	2	-
Associates	-	-	-	-
Total income	**98**	**141**	**160**	**205**

STATEMENT OF PROFIT OR LOSS		GROUP		BANK
in HRK million	2018	2019	2018	2019
Interest expense	**223**	**181**	**162**	**130**
Entity with significant influence on the Group	60	46	29	16
Key management personnel	-	-	-	-
Other EGB companies	1	-	-	-
Parent company	159	135	129	114
Subsidiaries	-	-	1	-
Associates	3	-	3	-
Fee expense	**33**	**34**	**40**	**40**
Parent company	4	4	4	4
Other EGB companies	29	30	22	23
Other	-	-	-	-
Subsidiaries	-	-	14	13
Other administrative expenses	**68**	**77**	**111**	**125**
Parent company	18	18	18	18
Other EGB companies	49	58	35	43
Key management personnel	1	1	1	1
Subsidiaries	-	-	57	63
Associates	-	-	-	-
Gains and losses from net trading result	**4**	**35**	**4**	**35**
Parent company	4	35	4	35
Other operating expenses	**1**	**-**	**-**	**-**
Parent company	1	-	-	-
Total expenses	**329**	**327**	**317**	**330**

33. Related-party transactions (continued)

OFF BALANCE ITEMS		GROUP		BANK
in HRK million	2018	2019	2018	2019
Guarantees issued	**30**	**26**	**29**	**26**
Parent company	29	25	29	25
Other EGB companies	1	1	-	-
Other	-	-	-	-
Subsidiaries	-	-	-	1
Undrawn credit and loan commitments	**1**	**1**	**205**	**131**
Key management personnel	-	-	-	1
Other EGB companies	1	1	-	-
Subsidiaries	-	-	205	130
Associates	-	-	-	-
Total commitments and contingent liabilities	**31**	**27**	**234**	**157**

Borrowings from parent company at 31 December 2019 were HRK 3,563 million for the Group (2018: HRK 2,995 million) and HRK 1,678 million for the Bank (2018: HRK 1,265 million).

As at 31 December 2019, the Group has had cash deposit as collateral within Amounts due to banks from the parent company in the amount of HRK 893 million (2018: HRK 891 million).

The remuneration of key management personnel were as follows:

		GROUP		BANK
in HRK million	2018	2019	2018	2019
Management Board				
Wages and salaries	35	28	9	10
Bonuses	9	12	6	5
Other key management personnel				
Wages and salaries	25	26	25	26
Bonuses	8	7	8	7
Total remuneration	**77**	**73**	**48**	**48**

34. Asset pledged as collateral

The following assets were pledged as security for liabilities:

Pledged assets		GROUP		BANK
in HRK million	2018	2019	2018	2019
Financial assets at amortised cost	1,320	1,242	1,320	1,242
of which debt securities	-	25	-	25
Financial assets at FVOCI	323	816	-	421
Financial assets at FVPL	-	-	-	-
Non-trading financial asset at FVPL	93	-	-	-
Total	**1,736**	**2,058**	**1,320**	**1,663**

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 and collateralised deposits.

The fair value of collateral received which may be repledged or resold even without the security provider's default was HRK 532 million (2018: HRK 2,155 million) for the Group and HRK 634 million for the Bank (2018: HRK 2,580 million).

The Bank is obliged to return repledged collateral.

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

in HRK million	2018 Carrying amount of transferred assets	2018 Carrying amount of associated liabilities	2019 Carrying amount of transferred assets	2019 Carrying amount of associated liabilities
				GROUP
Repurchase agreements				
Financial assets at AC	-	-	-	-
Non-trading financial assets at FVPL	93	-	-	-
Financial assets at FVOCI	323	-	816	636
Total - repurchase agreements	**416**	**-**	**816**	**636**

in HRK million	2018 Carrying amount of transferred assets	2018 Carrying amount of associated liabilities	2019 Carrying amount of transferred assets	2019 Carrying amount of associated liabilities
				BANK
Repurchase agreements				
Financial assets at FVOCI	-	-	421	409
Total - repurchase agreements	**-**	**-**	**421**	**409**

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

The total amount of HRK 816 million (2018: HRK 416 million) for the Group and HRK 421 million for the Bank (nil in 2018) 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 636 million in 2019 (nil in 2018) for the Group and HRK 409 million (nil in 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	2018 Fair value of transferred assets	2018 Fair value of associated liabilities	2018 Net position	2019 Fair value of transferred assets	2019 Fair value of associated liabilities	2019 Net position
						GROUP
Financial assets at AC	-	-	-	-	-	-
Non-trading financial assets at FVPL	93	-	93	-	-	-
Financial assets at FVOCI	323	-	323	816	636	180
Total	**416**	**-**	**416**	**816**	**636**	**180**

in HRK million	2018 Fair value of transferred assets	2018 Fair value of associated liabilities	2018 Net position	2019 Fair value of transferred assets	2019 Fair value of associated liabilities	2019 Net position
						BANK
Financial assets at FVOCI	-	-	-	421	409	12
Total	**-**	**-**	**-**	**421**	**409**	**12**

36. Offsetting

Financial assets subject to offsetting and potential offsetting agreements in 2019

GROUP

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

Financial liabilities subject to offsetting and potential offsetting agreements in 2019

GROUP

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

Financial assets subject to offsetting and potential offsetting agreements in 2019

BANK

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

Financial liabilities subject to offsetting and potential offsetting agreements in 2019

BANK

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

36. Offsetting (continued)

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**

36. 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.

37. Risk management

37.1) 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.

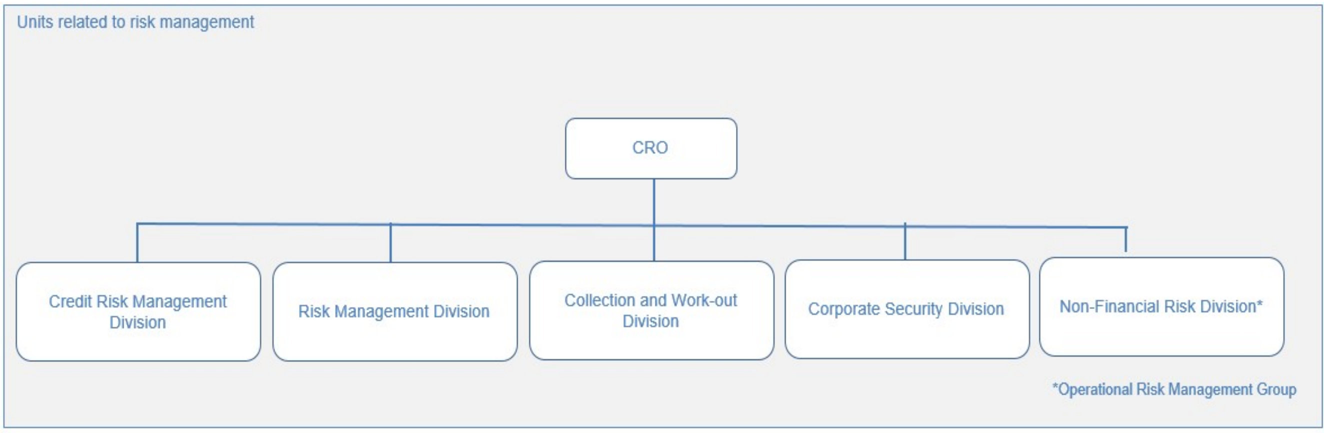
The Group uses a risk management and control system that is proactive and tailored to its business and risk profile. It is based on a clear risk strategy that is consistent with the Group's business strategy and focused on early identification and management of risks and trends. In addition to meeting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

37.2) 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.



37.2) 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 set 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, administrates and monitors client/group of connected customers exposure limits in the Group and the Bank, 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.

37.2) 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 legal regulations and standards of the Group and the Bank.
The Risk Strategy and Reporting Department, together with other departments and Bank organizational units, actively participates in the process of managing data quality and evaluating the adequacy of internal control systems.

Quantitative Research Department

Quantitative Research Department (QRD) within the Risk Management Division is responsible for implementation of Basel standards, regulatory requirements and guidelines, as well as Erste Group standards with respect to internal rating based approach for calculation of capital requirements for credit risk and enterprise-wide risk management.

QRD introduces, coordinates the development and participates in development, implementation and monitoring of different types of quantitative models as well as calculation of credit risk parameters which are used for measurement, segmentation and management of credit risks in line with best practice and group standards as well as implementation in the Bank's processes (including constant enhancement of business processes connected with above mentioned calculations). QRD is responsible for efficiency of implemented models and performs calibration and participates in calibration of models in line with Erste Group principles and participates in validation of the same in collaboration with Erste Group. QRD also reports about the parameters and models and performs modelling of macroeconomic impact on risk models and Bank business as a whole.

QRD strives to achieve holistic approach in managing risks through enterprise-wide risk management. By defining risk strategy and Risk Appetite Statement which includes all risk departments, a framework for responsible and prudent risk taking is ensured. Enterprise-wide risk management encompasses Internal Capital Adequacy Assessment Process (ICAAP) which includes the identification of risks to which the Bank/EBC Group is exposed or might be exposed in the future and the assessment of economic capital adequacy. Identification of risks is performed through risk materiality assessment, concentration risk analysis and stress testing. Material risks are managed through calculation of regulatory and internal capital requirements and through the limit and control systems. QRD calculates the economic capital adequacy on a quarterly basis, i.e. coverage of internal capital requirements, for relevant risks, with internal capital. In addition, through enterprise-wide risk management QRD plans and manages the risk weighted assets, and participates in determination of price for different products using Expected Risk Margin (ERM), Standard Risk Cost (SRC) and cost of capital, participates in the process of profitability modelling, business model development and risk cost planning.

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

37.2) 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 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 and collection of 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 Departments have been established, Corporate Workout Department, Retail Work-out Department, which follow the business lines in the sales sectors and Repossessed assets and Collateral management Department.

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

Collateral Management Department is in charge of control, update and maintaining of collaterals and makes policies and standards of assessing and types of accepted collaterals. In that way, it contributes to RWA optimization, and keeps adequate credit protection. 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 of conducting of tasks related to the security, adequate managing of information system and risk of information system, managing of continuity of operations and crisis management according to Group standards and local policies and standards.

The main objectives of the Division are development and implementation of a security of information system architecture, determination of security objectives in accordance with the Bank's information system strategy, information security policy management, standards, guidelines and other internal acts with a view to achieving and maintaining a satisfactory level of security.
The Division also continuously improves the corporate security incident management system as well as the implementation of new methodologies, tools and technologies to meet all the regulatory requirements and security standards required for the Bank's smoothly managed business. Division also in charge of reports on state of Bank security which are sent to the Management Board and the Supervisory Board.

37.2) 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.

37.3) 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 and Group's overall steering and management system. The components necessary to ensure all aspects of ERM, regulatory requirements, but particularly internal value adding needs, can be clustered as follows:

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

37.3) 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) and target setting, and
- Forms a key input into the annual strategic planning process, creating a holistic perspective on capital, liquidity and risk-return trade-offs.

Portfolio and risk analytics

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

The **risk materiality assessment** (RMA) determines the materiality of risk types and consequently the risk profile across the Bank and its entities. RMA is an annual process with the purpose of systematically identifying new and assessing all existing risks for EBC Group. As such, the RMA is an integral part of the ICAAP and serves as a steering tool for senior management.
Insights generated by the assessment are used to improve risk management practices and further mitigate risks within the EBC Group. The assessment also serves as an input for the design and definition of the Risk Strategy and Risk Appetite Statement. Key outputs and recommendations of the RMA are considered in the scenario design and selection of the comprehensive and reverse stress tests.

The Bank has also implemented a process to identify, measure, control, and to manage **concentration risk**. This process is essential to ensure the long-term viability of the Bank, especially in times of adverse business environment and stressed economic conditions. The concentration risk analysis covers credit risk, market risk, operational risk 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 enrich measuring and risk management system. Comprehensive stress test results are considered in the risk-bearing capacity calculation and the levels of core indicators under stressed conditions are compared to the limits and targets set in the Risk Appetite Statement.

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

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.

37.3) 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 successfully completed the development of the new PD methodology during 2018 and implemented the new parameters at the end of 2019. New LGD methodology has also been applied to the regulator during 2019. CCF development is planned to start in 2020. Development of new rating models for private individuals, corporate-SME clients and Group Corporate and Group Large Corporates started during 2019 whose finalization and application to the regulator is expected during and by the end of 2020.

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 2019, the Croatian National Bank was provided with an updated version of the Recovery plan.

37.4) Credit risk

Definition and overview

Credit risk arises in the Bank's traditional lending and investment businesses. It involves both credit losses incurred as a result of borrowers' default (Stage 3) and expected credit losses (ECL) of non-defaulted borrowers calculated as 12-months ECL (Stage 1) or calculated as lifetime expected credit losses (Stage 2).
Operative credit decisions are made by the responsible credit risk management units.
With the goal of good risk management, all data relevant to credit risk management, performance management and determination of risk-weighted assets and the regulatory capital requirement are regularly input into central database used for credit risk management, while quality of data is regularly controlled.
Therefore, departments within Risk Management regularly use this database for credit risk reporting thereby providing centralised analysis and application of ratios according to unified methods and segmentation across the Bank and Group as a whole. The credit risk reporting comprises regular reports on credit portfolio for external and internal recipients and permits continuous monitoring of credit risk developments, thus enabling management to take control measures. In-house recipients of these reports include, above all, the Supervisory and Management Board as well as risk managers, business unit directors and internal audit staff.

Internal rating system

Overview
The Bank has in place business and risk strategies, as well as policies for lending and credit approval processes that are reviewed and adjusted regularly, at minimum on a yearly basis. They cover the entire lending business, taking into account the nature, scope and risk level of the transactions and the counterparties involved. Credit approval is also based on the creditworthiness of the customer, the type of credit, collateral, covenant package and other risk mitigation factors involved.
The assessment of counterparty default risk within the Bank is based on the customer's Probability of Default (PD). For each credit exposure and lending decision, the Bank assigns an internal rating, which is a unique measure of the counterparty default risk. The internal rating of each customer is updated at least on an annual basis (annual rating review). Ratings of customers in weaker rating classes are reviewed with higher frequency.

Besides setting of the capital requirements the main purpose of the internal ratings is to support the decision-making for lending and for the terms of credit facilities to be extended. However, internal ratings also determine the level of decision-making authority within the Bank and the monitoring procedures for existing exposures. At a quantitative level, internal ratings drive the level of required risk pricing and risk allowances.
As mentioned above, internal ratings are the key element of the RWA calculation which is also used in the assessment of economic capital requirement according to Pillar 2 (ICAAP). PD values reflect the 12-month probability of default based on long-term average default rates. The Bank assigns margins of conservatism to the calculated PD depending on the granularity of portfolios and relevant data history. Calibration of PD values is validated annually in line with all the rating methods validations.

Internal ratings take into account all available essential information for the assessment of counterparty default risk. For non-retail borrowers, internal ratings take into account the financial strength of the counterparty, the possibility of external support and other company information. For retail clients, internal ratings are based mainly on behavioural and application scoring, but they also utilise demographic and financial information. Rating ceiling rules on credit quality are applied based on membership in a group of economically related entities and country of main economic activity.

All scorecards, both retail and non-retail, are regularly validated by the central validation unit based on Group-wide standard methodology. Validations are conducted using statistical techniques and the results of this validation process are reported to the management and regulatory bodies.
The Bank complies with all Erste Group standards with respect to model development and maintenance process. All new models and modifications of existing models in the Group (rating models and risk parameters), as well as methodology standards, are reviewed by the respective organizational unit of Erste Holding which ensures Group-wide integrity and consistency of models and methodologies. Models are approved by local Management Board.

37.4) 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: customers that may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium-term. Retail clients with limited savings or probable payment problems in the past triggering early collection reminders.

Substandard: customers which are vulnerable to negative financial and economic developments.

Non-performing: customers who meet one or more of the default criteria according to Article 178 of Regulation (EU) No 575/2013 and Croatian National Bank bylaws, which are precisely defined by the 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 defaults on one product then the entire customer's performing products are classified as non-performing. Definition of non-performing exposure includes 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.

37.4) 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 2019 and 31 December 2018.

37.4) Credit risk (continued)

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

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

				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**

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.

37.4) Credit risk (continued)

Subsequently credit risk exposure is categorized by geographical segment and risk category and geographical segment and IFRS 9 treatment.
After that credit risk is categorized in the following way:

- non-performing credit risk exposure by business segment and credit loss allowances;
- composition of credit loss allowances;
- credit risk exposure, forbearance exposure, and credit loss allowances;
- business segment and collateral;
- financial instrument and collateral;
- credit risk exposure neither past due nor credit impaired by financial instrument and risk category;
- credit risk exposure past due and not impaired by financial instrument and collateralisation;
- loans and advances to customers by business segment and risk category;
- loans and advances to customers by business segment and IFRS 9 treatment;
- non-performing loans and advances to customers by business segment and coverage by loan loss allowances;
- loans and advances to customers by business segment and currency.

Credit risk exposure by counterparty sector and financial instrument

GROUP

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

GROUP

in HRK million	Other demand deposits to credit institutions	Debt instruments held for trading	Non-trading debt instruments at FVPL	Debt instruments at FVOCI	At amortised cost: Debt securities	At amortised cost: Loans and advances to banks	At amortised cost: 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**

37.4) 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
2019										
Central banks	-	-	-	-	-	3,767	-	-	-	3,767
General governments	-	186	-	8,674	1,465	-	7,211	1	400	17,937
Credit institutions	224	7	-	612	-	497	-	92	231	1,663
Other financial corporations	-	12	15	-	-	-	505	16	82	630
Non-financial corporations	-	21	-	303	-	-	17,119	86	4,704	22,233
Households	-	-	-	-	-	-	18,707	44	1,260	20,011
Total	**224**	**226**	**15**	**9,589**	**1,465**	**4,264**	**43,542**	**239**	**6,677**	**66,241**

										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
2018										
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
	2018	2019	2018	2019
Financial guarantees	3,150	3,107	2,749	2,679
Irrevocable loan commitments	5,874	6,646	3,356	3,998
Revocable loan commitments	3,119	3,434	3,245	3,247
Total	**12,143**	**13,187**	**9,350**	**9,924**

37.4) Credit risk (continued)

Credit risk exposure by industry and financial instrument

The following tables include the Group and 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
2019											
Agriculture and forestry	-	-	-	-	-	-	1,157	111	89	198	1,555
Mining	-	-	-	-	-	-	101	1	6	60	168
Manufacturing	-	1	-	14	-	-	3,192	200	209	803	4,419
Energy	-	9	-	-	-	-	874	2	11	71	967
Water supply	-	-	-	-	-	-	275	3	65	302	645
Construction	-	2	-	11	-	-	3,604	41	167	1,381	5,206
Trade	-	-	141	45	-	-	3,470	257	367	1,812	6,092
Transport	-	-	-	54	-	-	905	83	425	203	1,670
Hotels and restaurants	-	4	-	-	-	-	3,868	14	158	231	4,275
Communication	-	-	-	-	-	-	218	34	89	110	451
Financial and insurance services	589	19	42	745	-	4,372	61	138	15	258	6,239
Real estate	-	2	-	180	-	-	1,760	4	50	276	2,272
Professional activities	-	2	-	-	-	-	1,353	35	86	221	1,697
Administrative and support service activities	-	-	-	-	-	-	393	26	440	135	994
Public administration	-	186	-	9,136	1,644	-	4,467	165	23	350	15,971
Education	-	-	-	-	-	-	21	-	5	29	55
Health services	-	-	-	-	-	-	461	3	33	32	529
Art	-	-	-	-	-	-	395	4	22	204	625
Private households	-	-	-	-	-	-	21,243	634	199	3,056	25,132
Other	-	-	-	-	-	-	116	5	20	21	162
Total	**589**	**225**	**183**	**10,185**	**1,644**	**4,372**	**47,934**	**1,760**	**2,479**	**9,753**	**79,124**

37.4) Credit risk (continued)

Credit risk exposure by industry and financial instrument (continued)

					At amortised cost					GROUP
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**

37.4) Credit risk (continued)

Credit risk exposure by industry 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
2019										
Agriculture and forestry	-	-	-	-	-	-	1,152	2	198	1,352
Mining	-	-	-	-	-	-	77	-	42	119
Manufacturing	-	1	-	14	-	-	3,127	7	748	3,897
Energy	-	10	-	-	-	-	814	-	71	895
Water supply	-	-	-	-	-	-	219	1	302	522
Construction	-	2	-	11	-	-	3,496	7	1,267	4,783
Trade	-	-	-	45	-	-	3,064	12	976	4,097
Transport	-	-	-	54	-	-	860	2	172	1,088
Hotels and restaurants	-	4	-	-	-	-	3,738	3	230	3,975
Communication	-	-	-	-	-	-	195	21	114	330
Financial and insurance services	224	19	15	612	-	4,264	505	119	307	6,065
Real estate	-	2	-	180	-	-	1,757	2	271	2,212
Professional activities	-	2	-	-	-	-	1,332	3	194	1,531
Administrative and support service activities	-	-	-	-	-	-	364	19	116	499
Public administration	-	186	-	8,673	1,465	-	4,299	1	341	14,965
Education	-	-	-	-	-	-	18	-	29	47
Health services	-	-	-	-	-	-	380	1	32	413
Art	-	-	-	-	-	-	393	1	202	596
Private households	-	-	-	-	-	-	17,636	36	1,046	18,718
Other	-	-	-	-	-	-	116	2	19	137
Total	**224**	**226**	**15**	**9,589**	**1,465**	**4,264**	**43,542**	**239**	**6,677**	**66,241**

37.4) 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 instru-ments 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**

37.4) 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
2019							
Agriculture and forestry	1,296	118	85	56	1,555	-	1,555
Mining	140	18	10	-	168	-	168
Manufacturing	3,730	150	438	100	4,418	1	4,419
Energy	828	64	66	-	958	9	967
Water supply	638	4	3	-	645	-	645
Construction	4,689	197	309	9	5,204	2	5,206
Trade	5,256	290	357	48	5,951	141	6,092
Transport	1,507	93	69	1	1,670	-	1,670
Hotels and restaurants	3,801	155	282	33	4,271	4	4,275
Communication	427	20	3	1	451	-	451
Financial and insurance services	5,969	207	2	-	6,178	61	6,239
Real estate	2,037	131	93	9	2,270	2	2,272
Professional activities	1,498	79	103	15	1,695	2	1,697
Administrative and support service activities	877	59	58	-	994	-	994
Public administration	15,739	44	2	-	15,785	186	15,971
Education	51	3	1	-	55	-	55
Health services	525	3	1	-	529	-	529
Art	576	44	5	-	625	-	625
Private households	21,644	1,894	1,590	4	25,132	-	25,132
Other	96	61	5	-	162	-	162
Total	**71,324**	**3,634**	**3,482**	**276**	**78,716**	**408**	**79,124**

							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**

37.4) 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
2019							
Agriculture and forestry	1,174	100	78	-	1,352	-	1,352
Mining	92	17	10	-	119	-	119
Manufacturing	3,249	137	417	93	3,896	1	3,897
Energy	793	26	66	-	885	10	895
Water supply	518	2	2	-	522	-	522
Construction	4,315	164	293	9	4,781	2	4,783
Trade	3,594	196	259	48	4,097	-	4,097
Transport	998	39	50	1	1,088	-	1,088
Hotels and restaurants	3,526	148	264	33	3,971	4	3,975
Communication	307	19	3	1	330	-	330
Financial and insurance services	5,823	207	1	-	6,031	34	6,065
Real estate	1,978	130	93	9	2,210	2	2,212
Professional activities	1,382	63	77	7	1,529	2	1,531
Administrative and support service activities	417	33	49	-	499	-	499
Public administration	14,756	23	-	-	14,779	186	14,965
Education	46	1	-	-	47	-	47
Health services	410	2	1	-	413	-	413
Art	550	42	4	-	596	-	596
Private households	16,228	1,173	1,314	3	18,718	-	18,718
Other	75	58	4	-	137	-	137
Total	**60,231**	**2,580**	**2,985**	**204**	**66,000**	**241**	**66,241**

							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**

37.4) Credit risk (continued)

Credit risk exposure by risk category

The following tables present the credit risk exposure of the Group and the Bank divided by risk category as at 31 December 2019, compared with the credit risk exposure as at 31 December 2018.

Credit risk exposure by risk category

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Credit risk exposure 2019	67,528	6,894	975	3,727	79,124
Share of credit risk exposure	85%	9%	1%	5%	100%
Credit risk exposure 2018	61,371	7,335	1,103	4,893	74,702
Share of credit risk exposure	82%	10%	1%	7%	100%

					BANK
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Credit risk exposure 2019	58,287	4,180	615	3,159	66,241
Share of credit risk exposure	88%	6%	1%	5%	100%
Credit risk exposure 2018	53,584	5,231	670	4,068	63,553
Share of credit risk exposure	84%	8%	1%	7%	100%

37.4) Credit risk (continued)

Credit risk exposure by industry and risk category
The following tables present the credit risk exposure of the Group and the Bank broken down by industry and risk category as at 31 December 2019 and 31 December 2018, respectively.

Credit risk exposure by industry and risk category

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2019					
Agriculture, forestry	1,228	174	12	141	1,555
Mining	154	4	-	10	168
Manufacturing	3,568	256	81	514	4,419
Energy	872	29	-	66	967
Water supply	574	59	9	3	645
Construction	4,450	300	138	318	5,206
Trade	5,226	429	33	404	6,092
Transport	1,462	126	12	70	1,670
Hotels and restaurants	3,733	190	41	311	4,275
Communication	431	15	1	4	451
Financial and insurance services	6,002	234	1	2	6,239
Real estate	2,094	63	14	101	2,272
Professional activities	1,359	216	4	118	1,697
Administrative and support service activities	782	148	6	58	994
Public administration	15,833	135	1	2	15,971
Education	48	6	-	1	55
Health services	465	62	1	1	529
Art	606	13	1	5	625
Private households	18,509	4,412	618	1,593	25,132
Others	132	23	2	5	162
Total	**67,528**	**6,894**	**975**	**3,727**	**79,124**
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**

37.4) 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
2019					
Agriculture, forestry	1,107	156	11	78	1,352
Mining	105	4	-	10	119
Manufacturing	3,120	211	80	486	3,897
Energy	800	29	-	66	895
Water supply	520	-	-	2	522
Construction	4,224	129	128	302	4,783
Trade	3,616	167	8	306	4,097
Transport	952	75	10	51	1,088
Hotels and restaurants	3,484	159	40	292	3,975
Communication	316	10	-	4	330
Financial and insurance services	5,875	189	-	1	6,065
Real estate	2,041	55	15	101	2,212
Professional activities	1,261	186	-	84	1,531
Administrative and support service activities	428	16	6	49	499
Public administration	14,961	4	-	-	14,965
Education	44	3	-	-	47
Health services	400	11	1	1	413
Art	582	9	1	4	596
Private households	14,337	2,748	314	1,319	18,718
Others	114	19	1	3	137
Total	**58,287**	**4,180**	**615**	**3,159**	**66,241**
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**

37.4) 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 2019 and 31 December 2018.

Credit risk exposure by region and risk category

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2019					
Erste Group markets	**60,573**	**5,567**	**892**	**3,549**	**70,581**
Austria	623	2	-	-	625
Croatia	58,917	5,558	892	3,548	68,915
Serbia	9	4	-	1	14
Slovakia	1,023	-	-	-	1,023
Czech Republic	-	-	-	-	-
Hungary	1	3	-	-	4
Other EU countries	**2,830**	**268**	**23**	**27**	**3,148**
Other industrialised countries	**101**	**8**	**-**	**11**	**120**
Emerging markets	**4,024**	**1,051**	**60**	**140**	**5,275**
Southeastern Europe/CIS	4,016	1,048	60	140	5,264
Asia	8	1	-	-	9
Latin Amerika	-	-	-	-	-
Middle East/Africa	-	2	-	-	2
Total	**67,528**	**6,894**	**975**	**3,727**	**79,124**
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**
South Eastern 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**

37.4) 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**
2019					
Erste Group markets	**55,907**	**4,136**	**611**	**3,146**	**63,800**
Austria	457	2	-	-	459
Croatia	54,420	4,130	611	3,146	62,307
Serbia	6	1	-	-	7
Slovakia	1,023	-	-	-	1,023
Czech Republic	-	-	-	-	-
Hungary	1	3	-	-	4
Other EU countries	**1,425**	**10**	**3**	**1**	**1,439**
Other industrialised countries	**100**	**3**	**-**	**11**	**114**
Emerging markets	**855**	**31**	**1**	**1**	**888**
South Eastern Europe/CIS	855	28	1	1	885
Asia	-	1	-	-	1
Latin America	-	-	-	-	-
Middle East/Africa	-	2	-	-	2
Total	**58,287**	**4,180**	**615**	**3,159**	**66,241**
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**
Southeastern 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**

37.4) 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
2019							
Core markets	**63,402**	**3,214**	**3,304**	**276**	**70,196**	**385**	**70,581**
Austria	619	-	-	-	619	6	625
Croatia	61,745	3,212	3,303	276	68,536	379	68,915
Serbia	11	2	1	-	14	-	14
Slovakia	1,023	-	-	-	1,023	-	1,023
Czech Republic	-	-	-	-	-	-	-
Hungary	4	-	-	-	4	-	4
Other EU	**2,888**	**210**	**27**	**-**	**3,125**	**23**	**3,148**
Other industrialised countries	**108**	**1**	**11**	**-**	**120**	**-**	**120**
Emerging markets	**4,926**	**209**	**140**	**-**	**5,275**	**-**	**5,275**
Southeastern Europe/CIS	4,915	209	140	-	5,264	-	5,264
Asia	9	-	-	-	9	-	9
Latin America	-	-	-	-	-	-	-
Middle East/Africa	2	-	-	-	2	-	2
Total	**71,324**	**3,634**	**3,482**	**276**	**78,716**	**408**	**79,124**

							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**

37.4) Credit risk (continued)

Credit risk exposure by region and IFRS 9 treatment (continued)

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

							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**

37.4) 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 2019 and 31 December 2018.

Credit risk exposure by business segment and risk category

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2019					
Retail	20,033	4,983	667	1,731	27,414
Small and Medium Enterprises	15,686	1,287	196	1,157	18,326
Local Large Corporates	4,248	175	49	406	4,878
Public sector	8,735	138	-	-	8,873
Group Large Corporates	1,005	23	2	116	1,146
Commercial Real Estate	1,963	29	61	297	2,350
Group Market Trading	267	202	-	-	469
Group Market Financial Institutions	370	19	-	-	389
Asset/Liability Management	15,118	4	-	-	15,122
Other	103	34	-	20	157
Total	**67,528**	**6,894**	**975**	**3,727**	**79,124**
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**

					BANK
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2019					
Retail	15,301	3,067	358	1,421	20,147
Small and Medium Enterprises	12,598	679	154	995	14,426
Local Large Corporates	4,182	157	40	402	4,781
Public sector	7,320	13	-	-	7,333
Group Large Corporates	888	-	2	40	930
Commercial Real Estate	1,962	29	61	282	2,334
Group Market Trading	360	202	-	-	562
Group Market Financial Institutions	361	14	-	-	375
Asset/Liability Management	15,207	-	-	-	15,207
Other	108	19	-	19	146
Total	**58,287**	**4,180**	**615**	**3,159**	**66,241**
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**

37.4) 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
2019							
Retail	23,640	2,041	1,726	7	27,414	-	27,414
Small and Medium Enterprises	16,000	995	1,108	78	18,181	145	18,326
Local Large Corporates	4,296	175	326	81	4,878	-	4,878
Public sector	8,813	60	-	-	8,873	-	8,873
Group Large Corporates	977	31	42	73	1,123	23	1,146
Commercial Real Estate	1,925	127	261	37	2,350	-	2,350
Group Market Trading	246	-	-	-	246	223	469
Group Market Financial Institutions	387	1	-	-	388	1	389
Asset/Liability Management	14,922	199	-	-	15,121	1	15,122
Other	118	5	19	-	142	15	157
Total	**71,324**	**3,634**	**3,482**	**276**	**78,716**	**408**	**79,124**

							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**

37.4) Credit risk (continued)

Credit risk exposure by business segment 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
2019							
Retail	17,459	1,265	1,416	7	20,147	-	20,147
Small and Medium Enterprises	12,627	775	953	71	14,426	-	14,426
Local Large Corporates	4,218	162	322	78	4,780	1	4,781
Public sector	7,318	15	-	-	7,333	-	7,333
Group Large Corporates	858	31	31	10	930	-	930
Commercial Real Estate	1,925	127	244	38	2,334	-	2,334
Group Market Trading	338	-	-	-	338	224	562
Group Market Financial Institutions	373	1	-	-	374	1	375
Asset/Liability Management	15,008	199	-	-	15,207	-	15,207
Other	107	5	19	-	131	15	146
Total	**60,231**	**2,580**	**2,985**	**204**	**66,000**	**241**	**66,241**

							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**

37.4) Credit risk (continued)

Non-performing credit risk exposure and allowances for credit risks

The Bank applies the definition of default on client level. Default is recognized when:

- the obligor is past due 90 consecutive days with any material credit obligation to the institution, the parent undertaking or any of its subsidiaries in full; and/or
- the obligor is considered unlikely to pay its credit obligation to the institution, the parent undertaking or any of its subsidiaries in full, in full without realisation of the collateral.

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

Credit risk allowances (specific and portfolio allowances) in the Group covered 81.7% of the reported non-performing credit risk exposure as at 31 December 2019 and 82.9% 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 2019, the non-performing credit risk exposure in the Bank decreased by HRK 909 million from HRK 4.1 billion as at 31 December 2018 to HRK 3.2 billion as at 31 December 2019. During the same period, the non-performing credit risk exposure in the Group decreased by HRK 1.2 billion, from HRK 4.9 billion as at 31 December 2018 to HRK 3.7 billion as at 31 December 2019.

Credit risk allowances were decreased by HRK 573 million in the Group, from HRK 3.6 billion as at 31 December 2018 to HRK 3.0 billion as at 31 December 2019. The decrease of credit risk allowances in the Bank during 2019 was HRK 302 million from HRK 2.9 billion as at 31 December 2018 to 2.6 billion as at 31 December 2019.
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 73.9% up to 81.7%, and the same pattern was recorded in the Bank so coverage of the non-performing credit risk exposure by credit risk allowances is increasing from 71.7% to 82.9%.

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 2019 and 31 December 2018, 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.

37.4) Credit risk (continued)

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

										GROUP
	Non-performing		Credit risk exposure		Credit loss allowances	Collateral for NPE	NPE ratio		NPE coverage (excl. collateral)	Total NPL coverage ratio
in HRK million	Total	AC and FVOCI	Total	AC and FVOCI	AC and FVOCI	AC and FVOCI	Total	AC and FVOCI	AC and FVOCI	AC and FVOCI
2019										
Retail	1,731	1,731	27,414	27,414	(1,303)	515	6.3%	6.3%	75.3%	105.0%
Small and Medium Enterprises	1,157	1,157	18,326	18,181	(1,022)	636	6.3%	6.4%	88.4%	143.4%
Local Large Corporates	406	406	4,878	4,878	(308)	140	8.3%	8.3%	76.0%	110.4%
Public sector	-	-	8,873	8,873	(107)	-	0.0%	0.0%	-	-
Group Large Corporates	116	116	1,146	1,123	(14)	33	10.1%	10.3%	12.3%	40.8%
Commercial Real Estate	297	297	2,350	2,350	(244)	204	12.7%	12.7%	82.0%	150.5%
Group Market Trading	-	-	469	246	(5)	-	0.1%	0.1%	-	-
Group Market Financial Institutions	-	-	389	388	(1)	-	0.0%	0.0%	-	-
Asset/Liability Management	-	-	15,122	15,121	(24)	-	0.0%	0.0%	-	-
Other	20	20	157	142	(14)	-	12.2%	13.5%	75.3%	75.3%
Total	**3,727**	**3,727**	**79,124**	**78,716**	**(3,042)**	**1,528**	**4.7%**	**4.7%**	**81.7%**	**122.7%**

										GROUP
	Non-performing		Credit risk exposure		Credit loss allowances	Collateral for NPE	NPE ratio		NPE coverage (excl. collateral)	Total NPL coverage ratio
in HRK million	Total	AC and FVOCI	Total	AC and FVOCI	AC and FVOCI	AC and FVOCI	Total	AC and FVOCI	AC and FVOCI	AC and FVOCI
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%**

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

										BANK
	Non-performing		Credit risk exposure		Credit loss allowances	Collateral for NPE	NPE ratio		NPE coverage (excl. collateral)	Total NPL coverage ratio
in HRK million	Total	AC and FVOCI	Total	AC and FVOCI	AC and FVOCI	AC and FVOCI	Total	AC and FVOCI	AC and FVOCI	AC and FVOCI
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%**

37.4) 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.

37.4) Credit risk (continued)

Quantitative criteria

Quantitative SICR indicators include adverse changes in annualized lifetime probability of default and in 12-month 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 and/or client rating level for each consolidated entity, as necessary, and are subject to initial and ongoing validation.

Absolute threshold refers to difference of current 1Y PD and 1Y PD on initial recognition. 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.

The table below presents applied relative threshold intervals and a sensitivity analysis on how changes in the relative thresholds would affect ECL.

Relative thresholds for SICR assessment by geographical segment

	Threshold interval (x times)		Threshold change +/-0.5		Threshold change +/-1	
in EUR million	Min	Max	ECL impact increase	ECL impact decrease	ECL impact increase	ECL impact decrease
2019						
Erste&Steiermärkische Bank d.d.	1.13	3.13	(1.1)	1.9	(2.2)	7.5
Total	**1.13**	**3.13**	**(1.1)**	**1.9**	**(2.2)**	**7.5**
2018						
Erste&Steiermärkische Bank d.d.	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**

Sensitivity is calculated by adding/subtracting the values indicated from the current threshold level. The ECL impact increase/decrease refers to increasing/lowering the threshold (i.e. if the current threshold is 2.37 and the sensitivity is 0.5, then the increase refers to a threshold of 2.87 and the decrease to a threshold of 1.87, so an increase leads to release of ECL and a decrease to additional allocation). Effects of the threshold changes by +/- 0.5 and +/- 1 are shown, however the threshold is floored to 1, since values of the ratio below 1 indicate creditworthiness improvement (i.e. if the threshold is 1.13, values used for sensitivity analysis for +/- 0.5 would decrease the threshold to 1 and increase the threshold to 1.63).

For migration back to Stage 1 there are no additional cure periods established for quantitative criteria other than those already established in general credit risk practice (e.g. for rating improvement).

Qualitative criteria

Qualitative SICR indicators 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.

37.4) 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.

37.4) 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:

GDP growth in %	Scenario	Probability weight	2019	2020	2021	2022
2019						
	Upside	10%	3.2	4.1	5.3	6.3
Erste&Steiermärkische Bank d.d.	Baseline	50%	3.2	2.5	2.4	2.4
	Downside	40%	3.2	0.9	(0.5)	(1.5)
			2018	**2019**	**2020**	**2021**
2018						
	Upside	32%	2.8	4.2	5.5	5.3
Erste&Steiermärkische Bank d.d.	Baseline	50%	2.8	2.7	2.6	2.7
	Downside	18%	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 2019 and 31 December 2018.

Composition of credit loss allowances

		GROUP
in HRK million	**2018**	**2019**
Credit loss allowances	(3,527)	(2,938)
Loss allowances for loan commitments and financial guarantees	(94)	(104)
Provisions for other commitments	-	-
Total	**(3,621)**	**(3,042)**

		BANK
in HRK million	**2018**	**2019**
Credit loss allowances	(2,853)	(2,536)
Loss allowances for loan commitments and financial guarantees	(69)	(80)
Provisions for other commitments	-	-
Total	**(2,922)**	**(2,616)**

37.4) 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.

37.4) 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 2019 and 31 December 2018. 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
2019				
Gross exposure	**59,094**	**12,303**	**9,753**	**81,150**
thereof gross forborne exposure	1,184	-	1	1,185
Performing exposure	55,456	12,303	9,666	77,425
thereof performing forborne exposure	316	-	-	316
Credit loss allowances for performing exposure	(541)	(36)	(81)	(658)
thereof credit loss allowances for performing forborne exposure	(20)	-	-	(20)
Non-performing exposure	3,638	-	87	3,725
thereof non-performing forborne exposure	869	-	1	870
Credit loss allowances for non-performing exposure	(2,363)	-	(23)	(2,386)
thereof credit loss allowances for non-performing forborne exposure	(498)	-	(1)	(499)

				GROUP
in HRK million	Loans and receivables	Financial assets	Contingent liabilities	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 risk provisions for performing exposure	(556)	(36)	(63)	(655)
thereof credit risk provisions for performing forborne exposure	(24)	-	-	(24)
Non-performing exposure	4,731	-	162	4,893
thereof non-performing forborne exposure	1,455	-	-	1,455
Credit risk provisions for non-performing exposure	(2,934)	-	(31)	(2,965)
thereof credit risk provisions for non-performing forborne exposure	(556)	-	-	(556)

37.4) 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**
2019				
Gross exposure	**49,978**	**11,325**	**6,677**	**67,980**
thereof gross forborne exposure	1,063	-	1	1,064
Performing exposure	46,867	11,325	6,630	64,822
thereof performing forborne exposure	298	-	-	298
Credit loss allowances for performing exposure	(430)	(32)	(67)	(529)
thereof credit loss allowances for performing forborne exposure	(19)	-	-	(19)
Non-performing exposure	3,111	-	47	3,158
thereof non-performing forborne exposure	765	-	1	766
Credit loss allowances for non-performing exposure	(2,076)	-	(13)	(2,089)
thereof credit loss allowances for non-performing forborne exposure	(473)	-	(1)	(474)

				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)

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.

37.4) 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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37.4) Credit risk (continued)

The following tables compare the credit risk exposure broken down by business segment and collateral as at 31 December 2019 and 31 December 2018 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
2019						
Retail	27,414	8,847	61	7,231	1,555	18,567
Small and Medium Enterprises	18,326	9,220	952	6,151	2,117	9,106
Local Large Corporates	4,878	2,729	1,383	805	541	2,149
Public sector	8,873	1,808	1,551	29	228	7,065
Group Large Corporates	1,146	319	30	226	63	827
Commercial Real Estate	2,350	1,461	4	1,423	34	889
Group Market Trading	469	192	-	-	192	277
Group Market Financial Institutions	389	36	-	12	24	353
Asset/Liability Management	15,122	-	-	-	-	15,122
Other	157	-	-	-	-	157
Total	**79,124**	**24,612**	**3,981**	**15,877**	**4,754**	**54,512**
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**

						BANK
in HRK million	Credit risk exposure	Collateral total	Guarantees	Real estate	Other	Credit risk exposure net of collateral
2019						
Retail	20,147	7,190	61	6,497	632	12,957
Small and Medium Enterprises	14,426	7,406	897	5,477	1,032	7,020
Local Large Corporates	4,781	2,672	1,383	805	484	2,109
Public sector	7,333	1,603	1,465	29	109	5,730
Group Large Corporates	930	267	30	226	11	663
Commercial Real Estate	2,334	1,460	4	1,423	33	874
Group Market Trading	562	192	-	-	192	370
Group Market Financial Institutions	375	26	-	12	14	349
Asset/Liability Management	15,207	-	-	-	-	15,207
Other	146	-	-	-	-	146
Total	**66,241**	**20,816**	**3,840**	**14,469**	**2,507**	**45,425**
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**

37.4) Credit risk (continued)

Credit risk exposure by financial instrument and collateral

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

in HRK million	Total credit risk exposure	Collateral total	Collateralised by: Guaran-tees	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
									GROUP
2018									
Other demand deposits to credit institutions	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**

37.4) 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
2019									
Other demand deposits to credit institutions	224	-	-	-	-	224	153	71	-
Debt instruments held for trading	226	-	-	-	-	226	-	-	-
Non-trading debt instruments at FVPL	15	-	-	-	-	15	-	-	-
Debt instruments at FVOCI	9,589	-	-	-	-	9,589	9,589	-	-
Debt instruments at AC	49,271	19,856	3,730	13,792	2,334	29,415	45,039	1,180	3,052
Debt securities	1,465	-	-	-	-	1,465	1,465	-	-
Loans and advances to banks	4,264	153	-	-	153	4,111	4,264	-	-
Loans and advances to customers	43,542	19,703	3,730	13,792	2,181	23,839	39,310	1,180	3,052
Trade and other receivables	239	7	-	7	-	232	172	7	60
Off balance-sheet exposures	6,677	953	110	670	173	5,724	6,563	67	47
Total	**66,241**	**20,816**	**3,840**	**14,469**	**2,507**	**45,425**	**61,516**	**1,325**	**3,159**

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**

37.4) 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 2019 and 31 December 2018 respectively.

Loans and advances to customers by business segment and risk category

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

					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**

37.4) Credit risk (continued)

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

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

					BANK
in HRK million	Low risk	Management attention	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**

37.4) 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 2019 and 31 December 2018 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
2019												
Retail	20,942	1,514	1,698	7	-	(105)	(87)	(1,094)	(1)	5.7%	64.4%	17.3%
Small and Medium Enterprises	11,864	757	1,071	78	-	(106)	(51)	(787)	(25)	6.7%	73.5%	32.6%
Local Large Corporates	3,930	168	305	80	-	(65)	(16)	(173)	(50)	9.3%	56.6%	63.3%
Public sector	6,595	54	-	-	-	(70)	(2)	-	-	4.1%	30.1%	-
Group Large Corporates	792	20	42	73	-	(3)	-	(8)	(2)	1.1%	20.1%	2.3%
Commercial Real Estate	1,540	106	259	38	-	(4)	(21)	(179)	(31)	20.9%	69.2%	77.8%
Group Market Trading	44	-	-	-	-	(2)	-	-	-	-	100.0%	-
Group Market Financial Institutions	35	1	-	-	-	(1)	-	-	-	3.4%	-	-
Asset/Liability Management	1	-	-	-	-	-	-	-	-	6.6%	-	-
Other	42	1	19	-	-	(1)	-	(13)	-	9.4%	64.8%	-
Total	**45,785**	**2,621**	**3,394**	**276**	**-**	**(357)**	**(177)**	**(2,254)**	**(109)**	**6.8%**	**66.4%**	**39.3%**

												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%**

37.4) Credit risk (continued)

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

												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
2019												
Retail	16,510	986	1,415	7	-	(57)	(58)	(931)	(1)	5.9%	65.8%	17.3%
Small and Medium Enterprises	9,513	608	930	70	-	(87)	(44)	(682)	(25)	7.2%	73.4%	36.0%
Local Large Corporates	3,787	155	301	80	-	(64)	(15)	(172)	(50)	9.8%	57.1%	63.3%
Public sector	6,075	9	-	-	-	(65)	-	-	-	3.3%	30.1%	-
Group Large Corporates	675	19	31	9	-	(3)	-	(3)	(2)	1.1%	8.5%	17.1%
Commercial Real Estate	1,539	105	244	38	-	(4)	(22)	(167)	(31)	20.9%	68.4%	77.8%
Group Market Trading	136	-	-	-	-	(2)	-	-	-	-	100.0%	-
Group Market Financial Institutions	23	1	-	-	-	(1)	-	-	-	3.8%	-	-
Asset/Liability Management	370	-	-	-	-	(1)	-	-	-	6.2%	-	-
Other	35	1	17	-	-	(1)	-	(12)	-	9.9%	64.6%	-
Total	**38,663**	**1,884**	**2,938**	**204**	**-**	**(285)**	**(139)**	**(1,967)**	**(109)**	**7.4%**	**66.9%**	**52.9%**

												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%**

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

										GROUP
	Non-performing		Gross customer loans		Loan loss allowances	Collateral for NPL	NPL ratio		NPL coverage (exc collateral)	Total NPL coverage ratio
in HRK million	Total	AC	Total	AC	AC	AC	Total	AC	AC	AC
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 Management	-	-	5	5	-	-	-	-	-	-
Other	11	11	80	80	(11)	-	14.3%	14.3%	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%**

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

										BANK
	Non-performing		Gross customer loans		Loan loss allowances	Collateral for NPL	NPL ratio		NPL coverage (exc collateral)	Total NPL coverage ratio
in HRK million	Total	AC	Total	AC	AC	AC	Total	AC	AC	AC
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%**

37.4) Credit risk (continued)

Loans and advances to customers by business segment and currency

						GROUP
in HRK million	**EUR**	**HRK**	**CHF**	**USD**	**Other**	**Total**
2019						
Retail	10,711	13,323	123	4	-	24,161
Small and Medium Enterprises	10,804	2,920	38	7	1	13,770
Local Large Corporates	3,943	540	-	-	-	4,483
Public sector	4,984	1,665	-	-	-	6,649
Group Large Corporates	499	413	-	15	-	927
Commercial Real Estate	1,916	27	-	-	-	1,943
Group Market Trading	36	6	-	2	-	44
Group Market Financial Institutions	30	6	-	-	-	36
Asset/Liability Management	-	1	-	-	-	1
Other	9	26	-	27	-	62
Total	**32,932**	**18,927**	**161**	**55**	**1**	**52,076**

						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**

37.4) Credit risk (continued)

Loans and advances to customers by business segment and currency (continued)

						BANK
in HRK million	**EUR**	**HRK**	**CHF**	**USD**	**Other**	**Total**
2019						
Retail	7,803	10,997	114	4	-	18,918
Small and Medium Enterprises	8,732	2,349	36	3	1	11,121
Local Large Corporates	3,831	492	-	-	-	4,323
Public sector	4,703	1,381	-	-	-	6,084
Group Large Corporates	424	295	-	15	-	734
Commercial Real Estate	1,901	25	-	-	-	1,926
Group Market Trading	36	98	-	2	-	136
Group Market Financial Institutions	21	3	-	-	-	24
Asset/Liability Management	-	370	-	-	-	370
Other	7	19	-	27	-	53
Total	**27,458**	**16,029**	**150**	**51**	**1**	**43,689**

						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**

37.5) 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 and the Group are using the standardized model.

Methods and instruments of risk mitigation

The Bank manages market risks in the trading book by setting several layers of limits. The overall limit 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.

37.5) 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 2019 and 31 December 2018 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 2019

in HRK thousand	Total	Interest	Currency	Shares	Commodity	Volatility
Banking book	14,636	14,492	60	0.8	-	467
Fixed Income AFS	12,891	12,887	26	-	-	17
Fixed Income Investment	3,611	3,609	8	-	-	-
Trading book	77	75	9	-	-	-

Value at Risk of banking book and trading book 2018

in HRK thousand	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	-	-	-

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 modelled deposit rates that are determined by means of statistical methods and the rules from the CNB, in line with the EBA's guidelines.

The following tables list the open fixed-income positions held by the Bank in currencies that carry an interest rate risk, i.e. for all significant currencies as of 31 December 2019 and 31 December 2018.

37.5) 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 2019

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

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

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 2019 and 31 December 2018.

Open exchange rate positions

in HRK thousand	2018	2019
Euro (EUR)	165,765	12,135
Serbian dinar (RSD)	(867)	(1,696)
Swiss franc (CHF)	(513)	1,816
Swedish krona (SEK)	884	454
Australian dollar (AUD)	1,045	983
Canadian dollar (CAD)	52	625
Norwegian krone (NOK)	353	696
US dollar (USD)	(6,563)	(4,628)
Hungarian forint (HUF)	(1,348)	(1,034)

37.6) 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 100% from 2018. The NSFR remains for the time being a reporting requirement only, but with a potential introduction of binding minimum requirement in 2021. The NSFR represents a ratio of available stable funding on the one hand and required stable funding on the other, within a 12 month time horizon. Both, LCR DA and NSFR have been implemented within the Bank.

Methods and instruments used for measurement of liquidity risk

The short-term insolvency risk is monitored by calculating the survival period in total and for major currencies. This analysis determines the maximum period during which the entity can survive a set of defined scenarios, including a severe combined market and idiosyncratic crisis while relying on its pool of liquid assets. The monitored worst-case scenario simulates very limited money market and capital market access and at the same time significant client deposit outflow. Furthermore, the simulation assumes increased drawdown on guarantees and loan commitments dependent on the type of the customer, as well as the potential outflows from collateralised derivative transactions by estimating the effect from collateral outflow in the case of adverse market movements.

As far back as 2011, the Bank's liquidity risk control has been based on the new Basel III liquidity risk measures, especially Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). Internally, the ratios are monitored 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 2019, both LCR and NSFR for the Bank were above 100%.

37.6) 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 2019 and 31 December 2018:

		BANK
	2018	2019
Liquidity Coverage Ratio (LCR)	191%	143%

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

			BANK
2018	> 1 year	> 2 years	> 3 years
Structural liquidity ratio	1.03	1.01	1.04

37.6) Liquidity risk (continued)

Counterbalancing capacity

The Bank regularly monitors its counterbalancing capacity, which consists of cash, excess minimum reserve at the Central Banks as well as unencumbered Central Bank eligible assets and other liquid securities, including changes from repos and reverse repos. These assets can be mobilised in the short term to offset potential cash outflows in a crisis situation. The term structure of the Bank's counterbalancing capacity as of 2019 year end and 2018 year end are shown in the tables below:

Term structure of counterbalancing capacity 2019

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

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)**

The figures above show the total amount of potential liquidity available for the Bank in a going concern situation, taking into account the applicable central bank haircuts.

37.6) Liquidity risk (continued)

Contractual Undiscounted Cash Flows from Financial liabilities

Maturities of contractual undiscounted cash flows from financial liabilities as at 31 December 2019 and 31 December 2018 respectively, were as follows:

Undiscounted financial liabilities

2019						GROUP
in HRK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**61,811**	**62,241**	**35,836**	**13,884**	**9,667**	**2,854**
Deposits by banks	8,545	8,662	2,933	2,725	1,423	1,581
Customer deposits	51,325	51,443	32,898	11,159	6,113	1,273
Debt securities in issue	672	712	1	-	711	-
Subordinated liabilities	1,269	1,424	4	-	1,420	-
Derivative liabilities	**36**	**60**	**5**	**15**	**6**	**34**
Contingent liabilities	**9,753**	**9,753**	**9,753**	**-**	**-**	**-**
Financial guarantees	3,107	3,107	3,107	-	-	-
Irrevocable commitments	6,646	6,646	6,646	-	-	-
Total	**71,600**	**72,054**	**45,594**	**13,899**	**9,673**	**2,888**

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**

37.6) Liquidity risk (continued)

2019						BANK
in HRK million	**Carrying amounts**	**Contractual cash flows**	**< 1 month**	**1-12 months**	**1-5 years**	**> 5 years**
Non-derivative liabilities	**54,402**	**54,791**	**32,550**	**11,137**	**8,383**	**2,721**
Deposits by banks	4,006	4,091	1,547	407	556	1,581
Customer deposits	48,455	48,564	30,998	10,730	5,696	1,140
Debt securities in issue	672	712	1	-	711	-
Subordinated liabilities	1,269	1,424	4	-	1,420	-
Derivative liabilities	**36**	**60**	**5**	**15**	**6**	**34**
Contingent liabilities	**6,677**	**6,677**	**6,677**	**-**	**-**	**-**
Financial guarantees	2,679	2,679	2,679	-	-	-
Irrevocable commitments	3,998	3,998	3,998	-	-	-
Total	**61,115**	**61,528**	**39,232**	**11,152**	**8,389**	**2,755**

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**

37.7) Operational risk

Definition and overview

Pursuant to Article 4 (52) of CRR, the Bank defines operational risk as the risk of loss resulting from inadequacy or failure of internal processes, people or systems, or from external events, including legal risks. Both quantitative and qualitative methods are used to identify operational risk. Consistent with sound practices, the responsibility for managing operational risk is within the line management.

Operational risk events are categorized within seven event types according to the Credit Institutions Act: *Internal theft and fraud, External theft and fraud, Employment practices and workplace safety, Clients, products and business practices, Damage to physical assets, Business disruption and (IT) system failures and, Execution, delivery and process management.*

Operational Risk Framework and Standards

For managing operational risk the Bank applies following elements: identification of operational risk, assessment, mitigation and acceptance of operational risk, quantification of operational risk and monitoring, controlling and reporting of operational risk.
When determining the operational risk exposure for the Bank, qualitative and quantitative tools have been applied. The quantitative analysis of operational risk includes collection of internal and external loss event data where particular emphasis is put on the data classification and quality necessary for quantifying operational risk. Furthermore, the Bank uses external operational risk loss data and scenario analysis to be able to project the losses that have not occurred in the past, but are still possible.
For the qualitative analysis risk and control self-assessments (RCSA) has to be performed on a regular basis and corrective measures have to be implemented by relevant organizational unit for high risk points where internal controls are not adequate or efficient.
An objective in the identification of operational risk is to establish key risk indicators such as system availability, staff turnover, customer complaints, which are measured and give a timely indication regarding changes in the operational risk profile.
In order to involve management of the Bank in the change management process it is ensured that there is an approval process that fully assesses operational risk for all new products, activities, processes and systems. This process has to also cover recent significant corporate events (such as mergers, acquisitions, disposals and restructuring) or new markets.
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 Operational Risk Quarterly Report which includes operational risk exposure and losses, risk assessments results, key risk indicators and corrective measures. Local Operational Conduct Committee is held at minimum on a quarterly basis.

38. 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.

38. Fair value of assets and liabilities (continued)

According to the described methodology the amount of cumulative CVA-adjustment was HRK 1,453 thousand as at 31 December 2019 (2018: HRK 1,074 thousand) and the total amount of DVA-adjustment amount was HRK 55 thousand as at 31 December 2019 (2018: HRK 200 thousand).

Validation and control

The responsibility for valuation of a position measured at fair value is independent from trading units. Additionally the Group has implemented an independent validation function in order to ensure separation between units responsible for model development, fair value determination and validation. The target of independent model validation is to evaluate model risks arising from the models theoretical foundation, the appropriateness of input data (market data) and model calibration.

Fair value hierarchy

Financial assets and financial liabilities measured at fair value are categorized under the three levels of the IFRS fair value hierarchy.

Level 1 of the fair value hierarchy

The fair value of financial instruments assigned to level 1 of the fair value hierarchy is determined based on quoted prices in active markets for identical financial assets and liabilities. More particular, the evaluated fair value can qualify as a level 1 if transactions occur with sufficient frequency, volume and pricing consistency on an ongoing basis.

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

Level 2 of the fair value hierarchy

In case a market quote is used for valuation but due to restricted liquidity the market does not qualify as active (derived from available market liquidity indicators) the instrument is classified as level 2. If no market prices are available the fair value is measured by using valuation models which are based on observable market data. If all significant inputs in the valuation model are observable the instrument is classified as level 2 of the fair value hierarchy. For level 2 valuations typically yield curves, credit spreads and implied volatilities are used as observable market parameters.

These include OTC derivatives, less liquid shares, bonds, funds and own issues.

Level 3 of the fair value hierarchy

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor of valuation models that rely entirely on observable market data. In these cases individual valuation parameters not observable in the market are estimated on the basis of reasonable assumptions. If any unobservable input in the valuation model is significant or the price quote used is updated infrequently the instrument is classified as level 3 of the fair value hierarchy. For level 3 valuations besides observable parameters typically credit spreads are used as unobservable parameters.

These include shares and funds not quoted, illiquid bonds.

38. 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

in HRK million	2018 Level 1	2018 Level 2	2018 Level 3	2018 Total	2019 Level 1	2019 Level 2	2019 Level 3	2019 Total
Assets								
Financial assets HFT	-	278	-	278	186	39	-	225
Derivatives	-	33	-	33	-	39	-	39
Other financial assets HFT	-	245	-	245	186	-	-	186
Non-trading financial assets - FVPL	147	-	18	165	153	-	46	199
Equity instruments	-	-	11	11	-	-	16	16
Debt securities	147	-	7	154	153	-	30	183
Financial assets - FVOCI	5,835	2,344	423	8,602	8,921	1,150	533	10,604
Equity instruments	-	-	111	111	-	-	162	162
Debt securities	5,835	2,344	312	8,491	8,921	1,150	371	10,442
Total assets	**5,982**	**2,622**	**441**	**9,045**	**9,260**	**1,189**	**579**	**11,028**
Liabilities								
Financial liabilities HFT	-	27	-	27	-	36	-	36
Derivatives	-	27	-	27	-	36	-	36
Total liabilities	**-**	**27**	**-**	**27**	**-**	**36**	**-**	**36**

BANK

in HRK million	2018 Level 1	2018 Level 2	2018 Level 3	2018 Total	2019 Level 1	2019 Level 2	2019 Level 3	2019 Total
Assets								
Financial assets HFT	-	279	-	279	186	40	-	226
Derivatives	-	34	-	34	-	40	-	40
Other financial assets HFT	-	245	-	245	186	-	-	186
Non-trading financial assets - FVPL	7	-	16	23	8	-	17	25
Equity instruments	-	-	9	9	-	-	10	10
Debt securities	7	-	7	14	8	-	7	15
Financial assets - FVOCI	5,331	2,344	302	7,977	8,482	1,150	329	9,961
Equity instruments	-	-	102	102	-	-	147	147
Debt securities	5,331	2,344	200	7,875	8,482	1,150	182	9,814
Total assets	**5,338**	**2,623**	**318**	**8,279**	**8,676**	**1,190**	**346**	**10,212**
Liabilities								
Financial liabilities HFT	-	27	-	27	-	36	-	36
Derivatives	-	27	-	27	-	36	-	36
Total liabilities	**-**	**27**	**-**	**27**	**-**	**36**	**-**	**36**

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

38. 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
		2018		2019
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	-	-	-	-
Purchases/sales/expiries	(1,485)	(106)	3,094	(1,442)
Total year-to-date change	**(3,213)**	**1,622**	**3,094**	**(1,442)**

				BANK
		2018		2019
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	-	-	-	-
Purchases/sales/expiries	(1,585)	(106)	3,338	(1,442)
Total year-to-date change	**(3,313)**	**1,622**	**3,338**	**(1,442)**

38. 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	Settlements	As of
	Jan 2019							Dec 2019
Assets								
Non-trading financial assets - FVPL	18	(1)	-	29	-	-	-	46
Equity instruments	11	(1)	-	6	-	-	-	16
Debt securities	7	-	-	23	-	-	-	30
Financial assets - FVOCI	423	9	120	14	(25)	-	(8)	533
Equity instruments	111	-	51	-	-	-	-	162
Debt securities	312	9	69	14	(25)	-	(8)	371
Total assets	**441**	**8**	**120**	**43**	**(25)**	**-**	**(8)**	**579**

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**

BANK

in HRK million	As of	Gain/(loss) in P&L	Gain/(loss) in OCI	Purchases	Sales	Transfers out of Level 3	Settlements	As of
	Jan 2019							Dec 2019
Assets								
Non-trading financial assets - FVPL	16	1	-	-	-	-	-	17
Equity instruments	9	1	-	-	-	-	-	10
Debt securities	7	-	-	-	-	-	-	7
Financial assets - FVOCI	302	9	37	14	(25)	-	(8)	329
Equity instruments	102	-	45	-	-	-	-	147
Debt securities	200	9	(8)	14	(25)	-	(8)	182
Total assets	**318**	**10**	**37**	**14**	**(25)**	**-**	**(8)**	**346**

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**

38. Fair value of assets and liabilities (continued)

As of 31 December 2019 and 2018, 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.

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 2019					**GROUP**
Financial assets at fair value through other comprehensive income	Bonds and commercial papers	366	Discounted cash flow	Credit spread	1.68% - 4.71% (4.38%)
31 December 2018					
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 2019					**BANK**
Financial assets at fair value through other comprehensive income	Bonds and commercial papers	180	Discounted cash flow	Credit spread	1.68% - 4.71% (4.33%)
31 December 2018					
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%)

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 2.63 million and for negative HRK 3.50 million.

38. 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 2019 and 2018.

					GROUP
2019	**Carrying amount**	**Fair value**	**Quoted market prices in active markets Level 1**	**Marked to model based on observable market data Level 2**	**Marked to model based on non-observable inputs Level 3**
in HRK million					
ASSETS					
Cash and cash balances	5,105	5,105	-	-	5,105
Financial assets at AC	51,295	50,497	-	-	50,497
Loans and advances to banks	4,367	4,366	-	-	4,366
Loans and advances to customers	45,286	44,441	-	-	44,441
Debt securities	1,642	1,690	-	-	1,690
Finance lease receivables	2,453	2,407	-	-	2,407
Trade and other receivables	1,537	1,508	-	-	1,508
LIABILITIES					
Financial liabilities measured at amortised costs	62,690	62,860	-	673	62,187
Deposits from banks	9,814	9,786	-	-	9,786
Deposits from customers	51,325	51,519	-	-	51,519
Debt securities issued	672	673	-	673	-
Other financial liabilities	879	882	-	-	882
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	3,107	3,270	-	-	3,270
Irrevocable commitments	6,646	6,984	-	-	6,984

					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	-	672	58,823
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

38. Fair value of assets and liabilities (continued)

Financial instruments not measured at fair value (continued)

					BANK
2019	**Carrying amount**	**Fair value**	**Quoted market prices in active markets Level 1**	**Marked to model based on observable market data Level 2**	**Marked to model based on non-observable inputs Level 3**
in HRK million					
ASSETS					
Cash and cash balances	4,339	4,339	-	-	4,339
Financial assets at AC	46,817	46,097	-	-	46,097
Loans and advances to banks	4,260	4,260	-	-	4,260
Loans and advances to customers	41,093	40,326	-	-	40,326
Debt securities	1,464	1,511	-	-	1,511
Trade and other receivables	188	184	-	-	184
LIABILITIES					
Financial liabilities measured at amortised costs	54,529	54,698	-	673	54,025
Deposits from banks	5,275	5,260	-	-	5,260
Deposits from customers	48,455	48,637	-	-	48,637
Debt securities issued	672	673	-	673	-
Other financial liabilities	127	128	-	-	128
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	2,679	2,819	-	-	2,819
Irrevocable commitments	3,998	4,202	-	-	4,202

					BANK
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	4,383	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	-	672	52,152
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

38. 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 2019 and 2018:

					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					
2019					
Investment property	33	43	-	-	43
2018					
Investment property	49	63	-	-	63

					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					
2019					
Investment property	3	3	-	-	3
2018					
Investment property	17	24	-	-	24

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.

39. Audit fees and tax consultancy fees

The following table contains fundamental audit fees by the auditors in the financial years 2019 and 2018:

	GROUP		BANK	
in HRK million	**2018**	**2019**	**2018**	**2019**
Audit fees	4	4	2	2
Total	**4**	**4**	**2**	**2**

40. 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 37.4 Credit risk).

41. 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 2019 and 31 December 2018.

				GROUP
in HRK million		**2018**		**2019**
	< 1 year	**> 1 year**	**< 1 year**	**> 1 year**
Cash and cash balances	4,954	-	5,105	-
Financial assets HfT	266	12	203	22
Derivatives	21	12	17	22
Other financial assets held for trading	245	-	186	-
Non-trading financial assets at FVPL	-	165	160	39
Equity instruments	-	11	-	16
Debt securities	-	154	160	23
Financial assets at FVOCI	3,459	5,143	2,327	8,277
Equity instruments	-	111	-	162
Debt securities	3,459	5,032	2,327	8,115
Financial assets at AC	17,336	32,342	16,679	34,616
Debt securities	177	1,096	291	1,351
Loans and advances to banks	5,136	92	4,367	-
Loans and advances to customers	12,023	31,154	12,021	33,265
Finance lease receivables	742	1,338	841	1,612
Trade and other receivables	1,409	16	1,528	9
Property, plant and equipment	-	1,245	-	1,311
Investment properties	-	49	-	33
Intangible assets	-	372	-	376
Investments in associates	-	60	-	58
Current tax assets	10	-	12	-
Deferred tax assets	-	219	-	187
Other assets	122	432	118	353
TOTAL ASSETS	**28,298**	**41,393**	**26,973**	**46,893**
Financial liabilities HfT	18	9	18	18
Derivatives	18	9	18	18
Financial liabilities measured at amortised cost	46,537	13,150	49,647	13,043
Deposits from banks	2,590	6,341	4,762	5,052
Deposits from customers	43,091	6,106	44,027	7,298
Debt securities issued	-	670	-	672
Other financial liabilities	856	33	858	21
Finance lease liabilities	-	-	15	83
Provisions	136	69	443	51
Tax liabilities	106	2	24	5
Other liabilities	555	48	620	21
TOTAL LIABILITIES	**47,352**	**13,278**	**50,767**	**13,221**

41. Analysis of remaining maturities (continued)

				BANK
in HRK million		2018		2019
	< 1 year	> 1 year	< 1 year	> 1 year
Cash and cash balances	4,383	-	4,339	-
Financial assets HfT	266	13	204	22
Derivatives	21	13	18	22
Other financial assets held for trading	245	-	186	-
Non-trading financial assets at FVPL	-	23	15	10
Equity instruments	-	9	-	10
Debt securities	-	14	15	-
Financial assets at FVOCI	3,451	4,526	2,148	7,813
Equity instruments	-	102	-	147
Debt securities	3,451	4,424	2,148	7,666
Financial assets at AC	15,902	30,213	14,798	32,019
Debt securities	100	920	291	1,173
Loans and advances to banks	5,309	-	4,260	-
Loans and advances to customers	10,493	29,293	10,247	30,846
Trade and other receivables	309	-	188	-
Property, plant and equipment	-	669	-	803
Investment properties	-	17	-	3
Intangible assets	-	120	-	121
Investments in subsidiaries	-	989	-	989
Investments in associates	-	38	-	38
Current tax assets	-	-	-	-
Deferred tax assets	-	87	-	75
Other assets	19	409	24	332
TOTAL ASSETS	**24,330**	**37,104**	**21,716**	**42,225**
Financial liabilities HfT	18	9	18	18
Derivatives	18	9	18	18
Financial liabilities measured at amortised cost	42,352	10,585	43,777	10,752
Deposits from banks	834	4,248	1,955	3,320
Deposits from customers	41,316	5,667	41,695	6,760
Debt securities issued	-	670	-	672
Other financial liabilities	202	-	127	-
Finance lease liabilities	-	-	18	87
Provisions	107	59	420	33
Tax liabilities	81	-	8	-
Other liabilities	365	48	406	21
TOTAL LIABILITIES	**42,923**	**10,701**	**44,647**	**10,911**

42. Country-by-country reporting

Country	Operating income	Pre-tax result from continuing operations	Income tax	Employees
2019				**GROUP**
Croatia	2,895	1,094	(219)	2,969
Montenegro	217	103	(9)	270
North Macedonia	17	3	-	43
Slovenia	63	12	(1)	59
Total	**3,192**	**1,212**	**(229)**	**3,341**

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
North Macedonia	19	17	-	43
Slovenia	57	10	(2)	63
Total	**3,161**	**1,285**	**(254)**	**3,168**

43. Own funds and capital requirements

Regulatory Scope of Consolidation

In the following pages the Group fulfils 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.

43. 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.

43. 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	2018	2019
Non-significant investments in financial sector entities		
Threshold (10% of CET1)	814	896
Holdings in CET1	(8)	(10)
Distance to threshold	**806**	**886**
Significant investments in financial sector entities		
Threshold (10% of CET1)	814	896
Holdings in CET1	(46)	(43)
Distance to threshold	**768**	**853**
Deferred tax assets		
Threshold (10% of CET1)	814	896
Deferred tax assets dependent on future profitability and arises from temporary differences	(219)	(172)
Distance to threshold	**595**	**724**
Combined threshold for deferred tax assets and significant investments		
Threshold (17.65% of CET1)	1,437	1,581
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	(265)	(215)
Distance to threshold	**1,172**	**1,366**

43. Own funds and capital requirements (continued)

Presentation of the scope of consolidation

Entities within the different scopes of consolidation

					2019
	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
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	-	-	-

					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	-	-	-

43. Own funds and capital requirements (continued)

Changes within the fully consolidated entities within the regulatory scope of consolidation

During 2019 and 2018 there was no changes in regulatory scope of consolidation

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.

43. Own funds and capital requirements (continued)

Capital structure according to the EU directive 575/2013 (CRR)

in HRK million	Article pursuant to CRR	GROUP 2018	GROUP 2019	BANK 2018	BANK 2019
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)	4,698	5,433	3,731	4,258
Accumulated other comprehensive income	4 (100), 26 (1) (d)	222	350	205	314
Other reserves		86	85	86	85
Prudential filter: fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	33 (1) (b)	(1)	(1)	(1)	(1)
Value adjustments due to the requirements for prudent valuation	34, 105	(15)	(30)	(14)	(26)
Regulatory adjustments relating to unrealised gains and losses	467, 468	-	-	-	-
Goodwill	4 (113), 36 (1) (b), 37	(172)	(172)	-	-
Other intangible assets	4 (115), 36 (1) (b), 37 (a)	(176)	(180)	(120)	(121)
Deferred tax assets dependent upon future profitability and not temporary differences net of associated tax liabilities	36 (1) (c), 38	-	(15)	-	-
IRB shortfall of credit risk adjustments to expected losses	36(1)(d), 40, 158, 159	-	(10)	-	(10)
Common equity tier 1 capital (CET1)	**50**	**8,141**	**8,959**	**7,386**	**7,998**
Tier 2 capital (T2)					
Capital instruments and subordinated loans eligible as T2 capital	62 (a), 63 to 65, 66 (a), 67	843	635	843	635
Own T2 instruments	63 (b) (i), 66 (a), 67	843	635	843	635
IRB excess of provisions over expected losses eligible	62 (d)	171	196	183	208
Tier 2 capital (T2)	**71**	**1,014**	**831**	**1,026**	**843**
Total own funds – phased-in		**-**	**-**	**-**	**-**
Capital requirement– phased-in	92 (3), 95, 96, 98	-	-	-	-
CET1 capital ratio– phased-in	92 (2) (a)	-	-	-	-
Tier 1 capital ratio– phased-in	92 (2) (b)	-	-	-	-
Total capital ratio– phased-in	92 (2) (c)	-	-	-	-
Total own funds - final		**9,155**	**9,790**	**8,412**	**8,841**
Capital requirement – final	92 (3), 95, 96, 98	3,541	3,996	2,963	3,298
CET1 capital ratio – final	92 (2) (a)	18.39	17.93	19.94	19.40
Tier 1 capital ratio – final	92 (2) (b)	18.39	17.93	19.94	19.40
Total capital ratio – final	92 (2) (c)	20.68	19.60	22.71	21.45

43. Own funds and capital requirements (continued)

Risk structure according to EU directive 575/2013 (CRR)

in HRK million	GROUP Article pursuant to CRR	2018 Calculation base/total risk (final)	2018 Capital requirement (final)	2019 Calculation base/total risk (final)	2019 Capital requirement (final)
Total risk exposure amount	92 (3), 95, 96, 98	44,264	3,541	49,955	3,996
Risk-weighted assets (credit risk)	92 (3) (a) (f)	38,640	3,091	44,183	3,534
Standardised approach		10,177	814	11,553	924
IRB approach		28,463	2,277	32,630	2,610
Trading book, foreign FX risk and commodity risk	92 (3) (b) (i) and (iii), 92 (4) (b)	57	4	199	16
Operational risk	92 (3) (e) 92 (4) (b)	5,548	444	5,548	444
Exposure for CVA	92 (3) (d)	19	2	25	2

in HRK million	BANK Article pursuant to CRR	2018 Calculation base/total risk (phased-in)	2018 Capital requirement (phased-in)	2019 Calculation base/total risk (phased-in)	2019 Capital requirement (phased-in)
Total risk exposure amount	92 (3), 95, 96, 98	37,038	2,963	41,219	3,298
Risk-weighted assets (credit risk)	92 (3) (a) (f)	32,752	2,620	37,058	2,965
Standardised approach		2,215	177	2,448	196
IRB approach		30,537	2,443	34,610	2,769
Trading book, foreign FX risk and commodity risk	92 (3) (b) (i) and (iii), 92 (4) (b)	139	11	54	4
Operational risk	92 (3) (e) 92 (4) (b)	4,034	323	4,085	327
Exposure for CVA	92 (3) (d)	113	9	22	2

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.

43. 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

			2019
in HRK million	**IFRS**	**Effects - scope of consolidation**	**CRR**
Assets			
Cash and cash balances	5,105	-	5,105
Financial assets - held for trading	225	-	225
Derivatives	39	-	39
Other trading assets	186	-	186
Non-trading financial assets at fair value through profit or loss	199	(4)	195
Financial assets at fair value through other comprehensive income	10,604	-	10,604
Financial assets at amortised cost	51,295	29	51,324
Loans to and receivables from credit institutions	4,367	-	4,367
Loans to and receivables from customers	45,286	29	45,315
Debt securities	1,642	-	1,642
Finance lease receivables	2,453	-	2,453
Property and equipment	1,311	(22)	1,289
Investment properties	33	(27)	6
Intangible assets	376	(24)	352
Investments in associates	58	23	81
Current tax assets	12	-	12
Deferred tax assets	187	-	187
Trade and other receivables	1,537	(2)	1,535
Other assets	471	(6)	465
Total assets	**73,866**	**(33)**	**73,833**
Liabilities and equity			
Financial liabilities - held for trading	36	-	36
Derivatives	36	-	36
Financial liabilities measured at amortised costs	62,690	6	62,696
Deposits from banks	9,814	(1)	9,813
Deposits from customers	51,325	8	51,333
Debt securities issued	672	-	672
Other financial liabilities	879	(1)	878
Finance lease liabilities	98	-	98
Provisions	494	-	494
Current tax liabilities	24	-	24
Deferred tax liabilities	5	-	5
Other liabilities	641	(5)	636
Total liabilities	**63,988**	**1**	**63,989**
Total equity	**9,878**	**(34)**	**9,844**
Equity attributable to non-controlling interests	188	(2)	186
Equity attributable to owners of the parent	9,690	(32)	9,658
Total liabilities and equity	**73,866**	**(33)**	**73,833**

43. 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

			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**

43. 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 2019 difference on position Investments in associates in amount of HRK 23 million (2018: HRK 21 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

						2019
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	1,886	(85)	1,801	-	1,801	b
Capital instruments and the related share premium accounts	-	85	85	-	85	c
Retained earnings	4,794	(34)	4,760	-	4,760	d
Gain for the year	962	2	964	(291)	673	e
Other comprehensive income (OCI)	350	-	350	-	350	f
Fair value reserve	432	-	432	-	432	
Currency translation	(7)	-	(7)	-	(7)	
Deferred tax	(75)	-	(75)	-	(75)	
Other	-	-	-	-	-	
Equity attributable to owners of the parent	9,690	(32)	9,658	(291)	9,367	
Equity attributable to non-controlling interests	188	(2)	186	(186)	-	
Total equity	**9,878**	**(34)**	**9,844**	**(477)**	**9,367**	

43. Own funds and capital requirements (continued)

Regulatory adjustments in amount of HRK 291 million HRK refer to distributable dividend that is deducted from the profit for the year 2019 (2018: HRK 350 million).
Further details regarding the development of IFRS equity are disclosed within Part III Statement of Changes in 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	f
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**	

Intangible assets

						2019
in HRK million	IFRS	effects - scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table - reference
Intangible assets	**376**	**(24)**	**352**	**-**	**352**	
deductible from CET 1	376	(24)	352	-	352	g

						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

Details regarding the development of intangible assets are disclosed under Note 24 Intangible assets.

43. Own funds and capital requirements (continued)

Deferred Taxes

				2019
in HRK million	**IFRS**	**effects - scope of consolidation**	**Own Funds**	**Own funds disclosure table - reference**
Deferred tax assets	**187**	**-**	**187**	
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	15	-	15	h
Deferred tax assets that rely on future profitability and arise from temporary differences	172	-	172	

				2018
in HRK million	**IFRS**	**effects - scope of consolidation**	**Own Funds**	**Own funds disclosure table - reference**
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	

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 2019 and 2018. In accordance with article 48 (4) CRR the non-deductible amount is risk weighted with 250% and considered within the credit risk. Deferred tax assets that rely on future profitability but do not arise from temporary differences are not subject to any threshold (i.e. are completely deducted from CET1).
Details regarding deferred tax assets are disclosed under Note 25 Tax assets and liabilities.

Subordinated liabilities

						2019
in HRK million	**IFRS**	**effects - scope of consolidation**	**CRR**	**Regulatory adjustments**	**Own funds**	**Own funds disclosure table - reference**
Tier 2 capital instruments	**1,265**	**-**	**1,265**	**(630)**	**635**	**i**
Subordinated loan	1,265		1,265	(630)	635	

						2018
in HRK million	**IFRS**	**effects - scope of consolidation**	**CRR**	**Regulatory adjustments**	**Own funds**	**Own funds disclosure table – reference**
Tier 2 capital instruments	**1,261**	**-**	**1,261**	**(418)**	**843**	**i**
Subordinated loan	1,261	-	1,261	(418)	843	

Details regarding subordinated liabilities are disclosed under Note 18 Financial liabilities measured at amortised costs.

43. Own funds and capital requirements (continued)

Own funds disclosure

Disclosure requirements covered: Art. 437 (1) (d) (e) CRR

The Group does not consider Art. 437 (1) (f) CRR for the calculation of consolidated own funds.

Based on the Regulation (EU) 2017/2395 of the European Parliament and of the Council, the Group does not apply the transitional period for mitigating the impact of IFRS 9 on own funds that arise from the calculation of the expected credit loss.

The table below presents the composition of the regulatory capital based on the Commission Implementing Regulation (EU) No 1423/2013 on the disclosure of own funds published in the Official Journal of the EU.

The transitional provisions which are applied by the Group are based on the CNB's decision on implementing standard of CRR.

43. Own funds and capital requirements (continued)

	in HRK million	(A) 31 December 2019	(B) Regulation (EU) No 575/2013 article reference	(C) Reference to the tables
Common Equity Tier 1: instruments and reserves				
1	Capital instruments and the related share premium accounts	3,499	26(1), 27, 28, 29	
	of which: Ordinary shares	1,698	EBA list 26(3)	a
	of which: Share premium	1,801	EBA list 26(3)	b
	of which: instrument type 3	-	EBA list 26(3)	
2	Retained earnings	4,760	26(1)(c)	d
3	Accumulated other comprehensive income (and other reserves)	350	26(1)	f
3a	Funds for general banking risks	85	26(1)(f)	c
4	Amount of qualifying items referred to in Article 484(3) and the related share premium subject to phase out from CET 1	-	486(2)	
5	Minority interests (amount allowed in consolidated CET1)	-	84	
5a	Independently verified interim profits net of any foreseeable charge or dividend	673	26(2)	e
6	**Common Equity Tier 1 (CET1) capital before regulative adjustments**	**9,367**	Sum of rows 1 to 5a.	
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative value)	(30)	34, 105	
8	Intangible assets (net of related tax liabilities) (negative amount)	(352)	36(1)(b), 37	g
9	Empty set in the EU	-		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability, where the conditions in Article 38(3) are met) (negative amount)	(15)	36(1)(c), 38	h
11	Fair value reserves related to gains or losses on cash flow hedges	-	33(1)(a)	
12	Negative amounts resulting from the calculation of expected loss amounts	(10)	36(1)(d), 40, 159	
13	Any increase in equity that results from securitised assets (negative amount)	-	32(1)	
14	Gains or loss on liabilities valued at fair value resulting from changes in own credit standing	(1)	33(1)(b)	
15	Defined-benefit pension fund assets (negative amount)	-	36(1)(e), 41	
16	Direct and indirect holdings by an institution of CET1 instruments (negative value)	-	36(1)(f), 42	
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities has reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	36(1)(g), 44	
18	Direct, indirect and synthetic holdings capital investments by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% and net of eligible short positions) (negative amount)	-	36(1)(h), 43, 45, 46, 49(2) and (3), 79	
19	Direct, indirect and synthetic holdings capital investments by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% and net of eligible short positions) (negative amount)	-	36(1)(i), 43, 45, 47, 48(1)(b), 49(1) to (3), 79	
20	CET1 capital elements or deductions - other	-		
20a	The exposure amount of the following items which quality for RW of 1250% where the institution opts for the deduction alternative	-	36(1)(k)	
20b	of which: qualifying holdings outside the financial sector (negative amount)	-	36(1)(k) point i), 89 to 91	
20c	of which: securitised positions (negative amount)	-	36(1)(k) point ii), 243(1)(b) 244(1)(b), 258	
20d	of which: free deliveries (negative amount)	-	36(1)(k) point iii), 379(3)	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38(3) are met) (negative amount)	-	36(1)(c), 38, 48(1)(a)	
22	Amount exceeding 15% threshold (negative amount)	-	48(1)	
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	36(1)(i), 48(1)(b)	

The table continues on the following page.

43. Own funds and capital requirements (continued)

	in HRK million	(A) 31 December 2019	(B) Regulation (EU) No 575/2013 article reference	(C) Reference to the tables
24	Empty set in the EU	-		
25	of which: deferred tax receivables arising from temporary differences	-	36(1)(c), 38, 48(1)(a)	
25a	Losses for the current financial year (negative amount)	-	36(1)(a)	
25b	Foreseeable tax charges relating to CET 1 items (negative amount)	-	36(1)(l)	
27	Qualifying AT1 deductions that exceed the AT 1 capital of the institution (negative amount)	-	36(1)(j)	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(408)**	Sum of rows 7 to 20a, 21, 22 and 25a to 27	
29	**Common Equity Tier 1 (CET1) capital**	**8,959**	Row 6 minus row 28	
Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	-	51, 52	
31	of which: classified as equity under applicable accounting standards	-		
32	of which: classified as liabilities under applicable accounting standards	-		
33	Amount of qualified items referred to in Article 484(4) and the related share premium account subject to phase out from AT1	-	486(3)	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	85, 86	
35	of which: instruments issued by subsidiaries subject to phase out	-	486(3)	
36	**Additional Tier 1 capital items before regulatory adjustments**	**-**	Sum of rows 30, 33 and 34.	
Additional Tier 1: regulatory adjustments				
37	Direct and indirect capital investments by an institution of own AT 1 instruments(negative amount)	-	52(1)(b), 56(a), 57	
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificialy the own funds of the institution (negative amount)	-	56(b), 58	
39	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56(c), 59, 60, 79	
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56(d), 59, 79	
41	Empty set in the EU	-		
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount) (negative amount)	-	56(e)	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-**	Sum of rows 37 to 42	
44	**Additional Tier 1 (AT1) capital**	**-**	Row 36 minus row 43	
45	**Tier 1 capital (T1=CET1 + AT1)**	**8,959**	Sum of rows 29 and 44	
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	635	62, 63	i
47	Amount of qualifying items referred to in Article 484(5) and the related share premium accounts subject to phase out from T2	-	486(4)	
48	Qualifying own instruments included in consolidated T2 capital (including minority interests and AT 1 instruments not included in row 5 or row 34) issued by subsidiaries and held by third parties	-	87, 88	
49	of which: instruments issued by subsidiaries subject to phase out	-	486(4)	
50	Credit risk adjustments	196	62(c) and (d)	
51	**Tier 2 (T2) capital before regulative adjustments**	**831**		
Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	63(b) (i), 66(a), 67	
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	66(b), 68	

The table continues on the following page.

43. Own funds and capital requirements (continued)

	in HRK million	(A) 31 December 2019	(B) Regulation (EU) No 575/2013 article reference	(C) Reference to the tables
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	66(c), 69, 70, 79	
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	66(d), 69, 79	
56	Empty set in the EU	-		
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-**	Sum of rows 52 to 56	
58	**Tier 2 (T2) capital**	**831**	Row 51 minus row 57	
59	**Total capital = (TC=T1+T2)**	**9,790**	Sum of rows 45 and 58	
60	**Total risk weighted assets**	**49,955**		
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of the risk exposure amount)	**17.93%**	92(2)(a)	
62	Tier 1 (as a percentage of the risk exposure amount)	**17.93%**	92(2)(b)	
63	Total capital (as a percentage of the total risk exposure amount)	**19.60%**	92(2)(c)	
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systematic risk buffer, plus systematically important institution buffer expressed as a percentage of risk exposure amount)	**10.00%**	CRD 128, 129, 130, 131, 133	
65	of which: capital conservation buffer requirement	**2.50%**		
66	of which: countercyclical buffer requirement	**-**		
67	of which: systemic risk buffer requirement	**3.00%**		
67a	of which: Global systemic important Institution (G-III) or other Systematically Important Institution (O-SII)buffer	**-**		
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	**7.13%**	CRD 128	
69	[not relevant in the EU Regulation]	-		
70	[not relevant in the EU Regulation]	-		
71	[not relevant in the EU Regulation]	-		
Amounts below the threshold for deduction (before risk weighting)				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	10	36(1)(h), 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)	43	36(1)(i), 45, 48	
74	Empty set in the EU			
75	Deferred tax assets arising from temporary differences (amount below 10% of the threshold, net of related tax liability where the conditions in Article 38 (3) are met)		36(1)(c), 38, 48	
Applicable caps on the inclusion of provisions in Tier 2				
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	62	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	62	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	196	62	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	32,630	62	
Capital instruments subject to phase-out arrangements (only applicable between 1 January 2014 and 1 January 2022)				
80	Current cup on CET1 instruments subject to phase out arrangements	-	484(3), 486(2) and (5)	
81	Amount excluded from CET 1 due to cap (excess over cap after redemtions and maturities)	-	484(3), 486(2) and (5)	
82	Current cap on AT1 instruments subject to phase out arrangements	-	484(4), 486(3) and (5)	
83	Amount excluded from AT 1 due to cap (excess over cap after redemptions and maturities)	-	484(4), 486(3) and (5)	
84	Current cap on T2 instruments subject to phase out arrangements	-	484(5), 486(4) and (5)	
85	Amount excluded from T2 due to cap (excess over cap redemptions and maturities)	-	484(5), 486(4) and (5)	

43. 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 institution of CET1 instruments (negative value)	-	36(1)(f), 42	
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities has reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	36(1)(g), 44	
18	Direct, indirect and synthetic holdings capital investments by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% and net of eligible short positions) (negative amount)	-	36(1)(h), 43, 45, 46, 49(2) and (3), 79	
19	Direct, indirect and synthetic holdings capital investments by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% and net of eligible short positions) (negative amount)	-	36(1)(i), 43, 45, 47, 48(1)(b), 49(1) to (3), 79	
20	CET1 capital elements or deductions - other	-		
20a	The exposure amount of the following items which quality for RW of 1250% where the institution opts for the deduction alternative	-	36(1)(k)	
20b	of which: qualifying holdings outside the financial sector (negative amount)	-	36(1)(k) point i), 89 to 91	
20c	of which: securitised positions (negative amount)	-	36(1)(k) point ii), 243(1)(b) 244(1)(b), 258	
20d	of which: free deliveries (negative amount)	-	36(1)(k) point iii), 379(3)	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38(3) are met) (negative amount)	-	36(1)(c), 38, 48(1)(a)	
22	Amount exceeding 15% threshold (negative amount)	-	48(1)	
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	36(1)(i), 48(1)(b)	

The table is continued on the next page

43. 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: classified as equity under applicable accounting standards	-		
32	of which: classified as liabilities under applicable accounting standards	-		
33	Amount of qualified items referred to in Article 484(4) and the related share premium account subject to phase out from AT1	-	486(3)	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	85, 86	
35	of which: instruments issued by subsidiaries subject to phase out	-	486(3)	
36	**Additional Tier 1 capital items before regulatory adjustments**	**-**	Sum of rows 30, 33 and 34	
Additional Tier 1: regulatory adjustments				
37	Direct and indirect capital investments by an institution of own AT 1 instruments(negative amount)	-	52(1)(b), 56(a), 57	
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificialy the own funds of the institution (negative amount)	-	56(b), 58	
39	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56(c), 59, 60, 79	
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56(d), 59, 79	
41	Empty set in the EU	-		
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount) (negative amount)	-	56(e)	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-**	Sum of rows 37 to 42	
44	**Additional Tier 1 (AT1) capital**	**-**	Row 36 minus row 43	
45	**Tier 1 capital (T1=CET1 + AT1)**	**8,141**	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 artificially the own funds of the institution (negative amount)	-	66(b), 68	

The table is continued on the next page.

43. 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), 45, 46, 56(c), 59, 60, 66(c), 69, 70	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	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)	

44. 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	
	2018	2019
Net result for the period	1,008	962
Profit or loss attributable to ordinary shareholders	1,008	962
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)	**59.33**	**56.66**

45. Events after balance sheet date

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across mainland China and beyond, causing disruptions to businesses and economic activity. The Group/Bank considers this outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Group. The potential impact of this outbreak on the macroeconomic forecasts will be incorporated into the Group's/Bank's IFRS 9 estimates of expected credit loss provisions in 2020.

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 2019 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 272 to 275 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**
		2018	**2019**
1.	Interest income	2,502	2,386
2.	(Interest expenses)	429	340
3.	(Expenses on share capital repayable on demand)	-	-
4.	Dividend income	1	1
5.	Fees and commissions income	968	1,057
6.	(Fees and commissions expenses)	234	254
7.	Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	28	1
8.	Gains or (-) losses on financial assets and liabilities held for trading, net	221	211
9.	Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	4	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	-	23
13.	Gains or (-) losses on derecognition of non-financial assets, net	5	26
14.	Other operating income	188	157
15.	(Other operating expenses)	175	159
16.	**Total operating income, net (1 – 2 – 3 + 4 + 5 – 6 + from 7 to 14 – 15)**	**3,079**	**3,113**
17.	(Administrative expenses)	1,266	1,322
18.	(Depreciation)	228	248
19.	Modification gains or (-) losses, net	-	(1)
20.	(Provisions or (-) reversal of provisions)	40	321
21.	(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	212	-
22.	(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	-	-
23.	(Impairment or (-) reversal of impairment on non-financial assets)	59	19
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	11	9
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)**	**1,285**	**1,211**
28.	(Tax expense or (-) income related to profit or loss from continuing operations)	254	229
29.	**Profit or (-) loss after tax from continuing operations (27 – 28)**	**1,031**	**982**
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)**	**1,031**	**982**
34.	Attributable to minority interest [non-controlling interests]	23	20
35.	Attributable to owners of the parent	1,008	962

STATEMENT OF OTHER COMPREHENSIVE INCOME			
	In HRK million		**GROUP**
		2018	**2019**
36.	Income or (-) loss for the current year	1,031	982
37.	**Other comprehensive income (38 + 50)**	**(51)**	**126**
38.	**Items that will not be reclassified to profit or loss (from 39 to 45 + 48 + 49)**	**21**	**41**
39.	Tangible assets	-	-
40.	Intangible assets	-	-
41.	Actuarial gains or (-) losses on defined benefit pension plans	3	(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	22	51
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)	(9)
50.	**Items that may be reclassified to profit or loss (from 51 to 58)**	**(72)**	**85**
51.	Hedge of net investments in foreign operations [effective portion]	-	-
52.	Foreign currency translation	(6)	2
53.	Cash flow hedges [effective portion]	-	-
54.	Hedging instruments [not designated elements]	-	-
55.	Debt instruments at fair value through other comprehensive income	(72)	99
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	6	(16)
59.	**Total comprehensive income for the current year (36 + 37; 60 + 61)**	**980**	**1,108**
60.	Attributable to minority interest [non-controlling interest]	23	20
61.	Attributable to owners of the parent	957	1,088

Income statement			
	In HRK million		**BANK**
		2018	**2019**
1.	Interest income	2,004	1,889
2.	(Interest expenses)	352	276
3.	(Expenses on share capital repayable on demand)	-	-
4.	Dividend income	21	69
5.	Fees and commissions income	642	690
6.	(Fees and commissions expenses)	177	186
7.	Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	14	-
8.	Gains or (-) losses on financial assets and liabilities held for trading, net	222	211
9.	Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	3	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	(18)	17
13.	Gains or (-) losses on derecognition of non-financial assets, net	4	23
14.	Other operating income	40	33
15.	(Other operating expenses)	126	121
16.	**Total operating income, net (1 – 2 – 3 + 4 + 5 – 6 + from 7 to 14 – 15)**	**2,277**	**2,352**
17.	(Administrative expenses)	913	961
18.	(Depreciation)	75	114
19.	Modification gains or (-) losses, net	-	(1)
20.	(Provisions or (-) reversal of provisions)	47	316
21.	(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	163	30
22.	(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	44	-
23.	(Impairment or (-) reversal of impairment on non-financial assets)	9	11
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)**	**1,026**	**919**
28.	(Tax expense or (-) income related to profit or loss from continuing operations)	196	166
29.	**Profit or (-) loss after tax from continuing operations (27 – 28)**	**830**	**753**
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)**	**830**	**753**
34.	Attributable to minority interest [non-controlling interests]	-	-
35.	Attributable to owners of the parent	-	753

STATEMENT OF OTHER COMPREHENSIVE INCOME			
	In HRK million		**BANK**
		2018	**2019**
36.	Income or (-) loss for the current year	830	753
37.	**Other comprehensive income (38 + 50)**	**(32)**	**109**
38.	**Items that will not be reclassified to profit or loss (from 39 to 45 + 48 + 49)**	**17**	**37**
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	20	45
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)	(8)
50.	**Items that may be reclassified to profit or loss (from 51 to 58)**	**(49)**	**72**
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	(53)	88
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	(16)
59.	**Total comprehensive income for the current year (36 + 37; 60 + 61)**	**798**	**862**
60.	Attributable to minority interest [non-controlling interest]	-	-
61.	Attributable to owners of the parent	798	862

Statement of financial position

	In HRK million		GROUP
		2018	2019
	ASSETS		
1.	**Cash, cash balances at central banks and other demand deposits (from 2 to 4)**	**4,954**	**5,105**
2.	Cash on hand	1,735	2,558
3.	Cash balances at central banks	2,976	1,958
4.	Other demand deposits	243	589
5.	**Financial assets held for trading (from 6 to 9)**	**278**	**225**
6.	Derivatives	33	39
7.	Equity instruments	-	-
8.	Debt securities	245	186
9.	Loans and advances	-	
10.	**Non-trading financial assets mandatorily at fair value through profit or loss (from 11 to 13)**	**165**	**199**
11.	Equity instruments	165	176
12.	Debt securities	-	23
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)**	**8,602**	**10,604**
18.	Equity instruments	111	162
19.	Debt securities	8,491	10,442
20.	Loans and advances	-	-
21.	**Financial assets at amortised cost (22 + 23)**	**53,183**	**55,285**
22.	Debt securities	1,273	1,642
23.	Loans and advances	51,910	53,643
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	58
27.	Tangible assets	1,294	1,344
28.	Intangible assets	372	376
29.	Tax assets	229	199
30.	Other assets	554	471
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)**	**69,691**	**73,866**
	LIABILITIES		
33.	**Financial liabilities held for trading (from 34 to 38)**	**27**	**36**
34.	Derivatives	27	36
35.	Short positions	-	-
36.	Deposits	-	-
37.	Debt securities issued	-	-
38.	Other financial liabilities	-	-
39.	**Financial liabilities designated at fair value through profit or loss (from 40 to 42)**	**-**	**-**
40.	Deposits	-	-
41.	Debt securities issued	-	-
42.	Other financial liabilities	-	-
43.	**Financial liabilities measured at amortised cost (from 44 to 46)**	**59,687**	**62,788**
44.	Deposits	58,128	61,139
45.	Debt securities issued	670	672
46.	Other financial liabilities	889	977
47.	Derivatives – Hedge accounting	-	-
48.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
49.	Provisions	205	494
50.	Tax liabilities	108	29
51.	Share capital repayable on demand	-	-
52.	Other liabilities	603	641
53.	Liabilities included in disposal groups classified as held for sale	-	-
54.	**TOTAL LIABILITIES (33+39+43+ from 47 to 53)**	**60,630**	**63,988**
	EQUITY		
55.	Initial capital	1,698	1,698
56.	Share premium	1,802	1,801
57.	Equity instruments issued other than capital	-	-
58.	Other equity instruments	-	-
59.	Accumulated other comprehensive income	223	350
60.	Retained profit	4,075	4,794
61.	Revaluation reserves	-	-
62.	Other reserves	85	85
63.	Treasury shares	-	-
64.	Profit or loss attributable to owners of the parent	1,008	962
65.	Interim dividends	-	-
66.	Minority interests [Non-controlling interests]	170	188
67.	**TOTAL EQUITY (from 55 to 66)**	**9,061**	**9,878**
68.	**TOTAL LIABILITIES AND EQUITY (54+67)**	**69,691**	**73,866**

Statement of financial position

	In HRK million		BANK
		2018	2019
	ASSETS		
1.	**Cash, cash balances at central banks and other demand deposits (from 2 to 4)**	**4,383**	**4,339**
2.	Cash on hand	1,565	2,407
3.	Cash balances at central banks	2,643	1,708
4.	Other demand deposits	175	224
5.	**Financial assets held for trading (from 6 to 9)**	**279**	**226**
6.	Derivatives	34	40
7.	Equity instruments	-	
8.	Debt securities	245	186
9.	Loans and advances	-	-
10.	**Non-trading financial assets mandatorily at fair value through profit or loss (from 11 to 13)**	**23**	**25**
11.	Equity instruments	23	25
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)**	**7,977**	**9,961**
18.	Equity instruments	102	147
19.	Debt securities	7,875	9,814
20.	Loans and advances	-	-
21.	**Financial assets at amortised cost (22 + 23)**	**46,424**	**47,005**
22.	Debt securities	1,020	1,464
23.	Loans and advances	45,404	45,541
24.	Derivatives – Hedge accounting	-	-
25.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
26.	Investments in subsidiaries, joint ventures and associates	1,027	1,027
27.	Tangible assets	686	806
28.	Intangible assets	120	121
29.	Tax assets	87	75
30.	Other assets	428	356
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)**	**61,434**	**63,941**
	LIABILITIES		
33.	**Financial liabilities held for trading (from 34 to 38)**	**27**	**36**
34.	Derivatives	27	36
35.	Short positions	-	-
36.	Deposits	-	-
37.	Debt securities issued	-	-
38.	Other financial liabilities	-	-
39.	**Financial liabilities designated at fair value through profit or loss (from 40 to 42)**	**-**	**-**
40.	Deposits	-	-
41.	Debt securities issued	-	-
42.	Other financial liabilities	-	-
43.	**Financial liabilities measured at amortised cost (from 44 to 46)**	**52,937**	**54,634**
44.	Deposits	52,065	53,730
45.	Debt securities issued	670	672
46.	Other financial liabilities	202	232
47.	Derivatives – Hedge accounting	-	-
48.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
49.	Provisions	166	453
50.	Tax liabilities	81	8
51.	Share capital repayable on demand	-	-
52.	Other liabilities	413	427
53.	Liabilities included in disposal groups classified as held for sale	-	-
54.	**TOTAL LIABILITIES (33+39+43+ from 47 to 53)**	**53,624**	**55,558**
	EQUITY		
55.	Initial capital	1,698	1,698
56.	Share premium	1,802	1,801
57.	Equity instruments issued other than capital	-	-
58.	Other equity instruments	-	-
59.	Accumulated other comprehensive income	204	314
60.	Retained profit	3,191	3,732
61.	Revaluation reserves	-	-
62.	Other reserves	85	85
63.	Treasury shares	-	-
64.	Profit or loss attributable to owners of the parent	830	753
65.	Interim dividends	-	-
66.	Minority interests [Non-controlling interests]	-	-
67.	**TOTAL EQUITY (from 55 to 66)**	**7,810**	**8,383**
68.	**TOTAL LIABILITIES AND EQUITY (54+67)**	**61,434**	**63,941**

Statement of changes in equity

In HRK million — **GROUP**

	Attributable to owners of the parent											Non-controlling interests		
	Equity	Share premium	Equity instruments issued other than capital	Other equity instru-ments	Accumulated other comprehensive income	Retained profit	Revaluation reserves	Other reserves	Treasury shares	Profit or loss attributable to owners of the parent	Interim dividends	Accumulated other comprehensive income	Other items	Total
Opening balance [before restatement]	1,698	1,802	-	-	223	4,075	-	85	-	1,008	-	-	170	9,061
Effects of error corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effect of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance (current period) (1 + 2 + 3)	1,698	1,802	-	-	223	4,075	-	85	-	1,008	-	-	170	9,061
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	-	-	-	-	-	(289)	-	-	-	-	-	-	(2)	(291)
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	-	-	-	-	-	1,008	-	-	-	(1,008)	-	-	-	-
Equity instruments increase or (-) decrease resulting from business combination	-	(1)	-	-	-	1	-	-	-	-	-	-	-	-
Share-based Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease of equity instruments	-	-	-	-	1	(1)	-	-	-	-	-	-	-	-
Total comprehensive income for the current year	-	-	-	-	126	-	-	-	-	962	-	-	20	1,108
Closing balance [current period] (from 4 to 20)	1,698	1,801	-	-	350	4,794	-	85	-	962	-	-	188	9,878

Statement of changes in equity

In HRK million — BANK

	Attributable to owners of the parent											Non-controlling interests		
	Equity	Share premium	Equity instruments issued other than capital	Other equity instru-ments	Accumulated other comprehensive income	Retained profit	Revaluation reserves	Other reserves	Treasury shares	Profit or loss attributable to owners of the parent	Interim dividends	Accumulated other comprehensive income	Other items	Total
Opening balance [before restatement]	1,698	1,802	-	-	204	3,191	-	85	-	830	-	-	-	7,810
Effects of error corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effect of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance (current period) (1 + 2 + 3)	1,698	1,802	-	-	204	3,191	-	85	-	830	-	-	-	7,810
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	-	-	-	-	-	(289)	-	-	-	-	-	-	-	(289)
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	-	-	-	-	-	830	-	-	-	(830)	-	-	-	-
Equity instruments increase or (-) decrease resulting from business combination	-	(1)	-	-	-	1	-	-	-	-	-	-	-	-
Share-based Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease of equity instruments	-	-	-	-	1	(1)	-	-	-	-	-	-	-	-
Total comprehensive income for the current year	-	-	-	-	109	-	-	-	-	753	-	-	-	862
Closing balance [current period] (from 4 to 20)	1,698	1,801	-	-	314	3,732	-	85	-	753	-	-	-	8,383

Cash flow statements

	In HRK million	GROUP 2018	2019
	Operating activities - direct method		
1.	Interest received and similar receipts	-	-
2.	Fees and commissions received	-	-
3.	(Interest paid and similar expenditures)	-	-
4.	(Fees and commissions paid)	-	-
5.	(Operating expenses paid)	-	-
6.	Net gains/losses from financial instruments at fair value through statement of profit or loss	-	-
7.	Other receipts	-	-
8.	(Other expenditures)	-	-
	Operating activities - indirect method		
9.	Profit/(loss) before tax	1,031	1,211
	Adjustments:	-	-
10.	Impairment and provisions	293	340
11.	Depreciation	228	248
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	2	(11)
14.	Other non-cash items	246	220
	Changes in assets and liabilities from operating activities		
15.	Deposits with the Croatian National Bank	(218)	(224)
16.	Deposits with financial institutions and loans to financial institutions	(422)	875
17.	Loans and advances to other clients	(5,754)	(4,640)
18.	Securities and other financial instruments at fair value through other comprehensive income	1,088	(3,952)
19.	Securities and other financial instruments held for trading	195	59
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)	(34)
22.	Securities and other financial instruments at amortised cost	32	(404)
23.	Other assets from operating activities	(177)	(242)
24.	Deposits from financial institutions	(1,340)	(252)
25.	Transaction accounts of other clients	6,549	3,280
26.	Savings deposits of other clients	226	551
27.	Time deposits of other clients	(1,191)	(1,632)
28.	Derivative financial liabilities and other traded liabilities	(25)	9
29.	Other liabilities from operating activities	(65)	1,502
30.	Interest received from operating activities [indirect method]	2,451	2,267
31.	Dividends received from operating activities [indirect method]	10	10
32.	Interest paid from operating activities [indirect method]	(444)	(338)
33.	(Income tax paid)	-	(303)
34.	**Net cash flow from operating activities (from 1 to 33)**	**2,711**	**(1,460)**
	Investing activities		
35.	Cash receipts from the sale / payments for the purchase of tangible and intangible assets	(216)	(232)
36.	Cash receipts from the sale / payments for the purchase of investments in branches, associates and joint ventures	-	-
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)**	**(216)**	**(232)**
	Financing activities		
41.	Net increase/(decrease) in loans received from financing activities	(1,069)	-
42.	Net increase/(decrease) of debt securities issued	301	-
43.	Net increase/(decrease) of Tier 2 capital instruments	-	-
44.	Increase of share capital	-	-
45.	(Dividends paid)	(162)	(291)
46.	Other receipts/(payments) from financing activities	-	(29)
47.	**Net cash flow from financing activities (from 41 to 46)**	**(930)**	**(320)**
48.	**Net increase/(decrease) of cash and cash equivalents (34 + 40 + 47)**	**1,565**	**(2,012)**
49.	**Cash and cash equivalents at the beginning of period**	**5,344**	**6,909**
50.	Effect of exchange rate fluctuations on cash and cash equivalents	-	-
51.	**Cash and cash equivalents at the end of period (48 + 49 + 50)**	**6,909**	**4,897**

	Cash flow statements		BANK
	In HRK million	**2018**	**2019**
	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	830	919
	Adjustments:	-	-
10.	Impairment and provisions	253	357
11.	Depreciation	75	114
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	(2)	(11)
14.	Other non-cash items	184	(69)
	Changes in assets and liabilities from operating activities		
15.	Deposits with the Croatian National Bank	(218)	(224)
16.	Deposits with financial institutions and loans to financial institutions	(600)	1,063
17.	Loans and advances to other clients	(5,580)	(2,945)
18.	Securities and other financial instruments at fair value through other comprehensive income	1,101	(3,926)
19.	Securities and other financial instruments held for trading	195	59
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)	(3)
22.	Securities and other financial instruments at amortised cost	43	(474)
23.	Other assets from operating activities	(171)	59
24.	Deposits from financial institutions	(1,492)	(323)
25.	Transaction accounts of other clients	6,608	2,633
26.	Savings deposits of other clients	236	632
27.	Time deposits of other clients	(1,479)	(1,554)
28.	Derivative financial liabilities and other traded liabilities	(25)	1
29.	Other liabilities from operating activities	(25)	496
30.	Interest received from operating activities [indirect method]	2,088	1,900
31.	Dividends received from operating activities [indirect method]	20	69
32.	Interest paid from operating activities [indirect method]	(360)	(272)
33.	(Income tax paid)	-	(253)
34.	**Net cash flow from operating activities (from 1 to 33)**	**1,678**	**(1,752)**
	Investing activities		
35.	Cash receipts from the sale / payments for the purchase of tangible and intangible assets	(120)	(139)
36.	Cash receipts from the sale / payments for the purchase of investments in branches, associates and joint ventures	(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)**	**(201)**	**(139)**
	Financing activities		
41.	Net increase/(decrease) in loans received from financing activities	(156)	-
42.	Net increase/(decrease) of debt securities issued	301	-
43.	Net increase/(decrease) of Tier 2 capital instruments	-	-
44.	Increase of share capital	-	-
45.	(Dividends paid)	(160)	(289)
46.	Other receipts/(payments) from financing activities	-	(27)
47.	**Net cash flow from financing activities (from 41 to 46)**	**(15)**	**(316)**
48.	**Net increase/(decrease) of cash and cash equivalents (34 + 40 + 47)**	**1,462**	**(2,207)**
49.	**Cash and cash equivalents at the beginning of period**	**4,874**	**6,336**
50.	Effect of exchange rate fluctuations on cash and cash equivalents	-	-
51.	**Cash and cash equivalents at the end of period (48 + 49 + 50)**	**6,336**	**4,129**

Off balance sheet items

			GROUP
		2018	2019
1.	Guarantees	2,915	2,931
2.	Letters of credit	215	170
3.	Bills of exchange	-	-
4.	Undrawn loans and loan commitments	5,874	6,646
5.	Other risk off balance items	20	6
6.	Futures	-	-
7.	Options	3	3
8.	Swaps	14,372	17,362
9.	Forwards	4,736	1,551
10.	Other derivatives	-	-

Off balance sheet items

			BANK
		2018	2019
1.	Guarantees	2,516	2,504
2.	Letters of credit	213	169
3.	Bills of exchange	-	-
4.	Undrawn loans and loan commitments	3,356	3,998
5.	Other risk off balance items	20	6
6.	Futures	-	-
7.	Options	3	3
8.	Swaps	14,927	18,250
9.	Forwards	4,736	1,551
10.	Other derivatives	-	-

Appendix 2 – Differences between financial statements according to IFRS and local requirements
Year ended 31 December 2019

					GROUP
Annual report (AR)	**in HRK million**	**Statement of financial position (CNB)**	**in HRK million**	**Diff.**	**Explanation**
Cash and cash balances	5,105	Cash on hand, Cash balances at Central bank and Other demand deposits	5,105	-	-
Financial assets held for trading	225	Financial assets held for trading	225	-	-
Non-trading financial assets at fair value through profit or loss - Equity instruments	16	Non-trading financial assets at fair value through profit or loss- Equity instruments	176	(160)	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	183	Non-trading financial assets at fair value through profit or loss- Debt securities	23	160	CNB- Equity instruments
Financial assets at fair value through other comprehensive income	10,604	Financial assets at fair value through other comprehensive income	10,604	-	-
Financial assets at amortised cost - Loans and advances	49,653			-	-
Trade and other receivables	1,537			-	-
Finance lease receivables	2,453	Financial assets at amortised cost- Loans and advances	53,643	-	-
Financial assets at amortised cost - Debt securities	1,642	Financial assets at amortised cost- Debt securities	1,642	-	-
Investments in subsidiaries, joint ventures and associates	58	Investments in associates, subsidiaries and joint ventures	58	-	-
Property and equipment	1,311			-	-
Investment property	33	Tangible assets	1,344	-	-
Intangible assets	376	Intangible assets	376	-	-
Tax assets	199	Tax assets	199	-	-
Other assets	471	Other assets	471	-	-
TOTAL ASSETS	**73,866**	**TOTAL ASSETS**	**73,866**	**-**	**-**

					GROUP
Annual report (AR)	**in HRK million**	**Statement of financial position (CNB)**	**in HRK million**	**Diff.**	**Explanation**
Financial liabilities held for trading- Derivatives	36	Financial liabilities held for trading- Derivatives	36	-	-
Financial liabilities measured at amortised cost- Deposits	61,139	Financial liabilities measured at amortised cost- Deposits	61,139	-	-
Debt securities in issue	672	Debt securities in issue	672	-	-
Other financial liabilities	879				
Finance lease liabilities	98	Other financial liabilities	977	-	-
Provisions	494	Provisions	494	-	-
Tax liabilities	29	Tax liabilities	29	-	-
Other liabilities	641	Other liabilities	641	-	-
Total equity	9,878	Total equity	9,878	-	-
TOTAL LIABILITIES AND EQUITY	**73,866**	**TOTAL LIABILITIES AND EQUITY**	**73,866**	**-**	**-**

Appendix 2 – Differences between financial statements according to IFRS and local requirements
Year ended 31 December 2019

					GROUP
Annual report (AR)	**in HRK million**	**Income statement (CNB)**	**in HRK million**	**Diff.**	**Explanation**
Interest income	2,232				
Other similar income	169	Interest income	2,386	15	CNB- Gains or losses on financial assets and financial liabilities held for trading, net
Interest expense	(280)				
Other similar expense	(75)	Interest expense	(340)	(15)	CNB- Gains or losses on financial assets and financial liabilities held for trading, net
Fee and commission income	1,057	Fees and commissions income	1,057	-	-
Fee and commission expense	(254)	Fees and commissions expenses	(254)	-	-
		Gains or losses on financial assets and financial liabilities held for trading, net	211		
Net trading result	234	Exchange differences [gain or loss], net	23	-	-
Personnel expenses	(747)	Administrative expenses	(1,322)		
Other administrative expenses	(660)			(85)	CNB- Other operating expense
Depreciation and amortisation	(248)	Depreciation	(248)	-	-
Other operating result	(284)	Gains or losses from derecognition of non-financial assets, net	26		
Rental income from investment properties & other operating leases	95	Other operating income	157		
		Other operating expense	(159)		
		Provisions or cancellation of provisions	(321)		
		Impairment or reversal of impairment on financial assets not measured at FVPL	-		
		Modification gains or (-) losses, net	(1)		
Net impairment loss on financial instruments	(43)	Impairment of non-financial assets	(19)	85	AR - Other administrative expenses
Net result from equity method investments	9	Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	9	-	-
Dividend income	1	Dividend income	1	-	-
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	1	Gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	1	-	-
Gains/losses from financial instruments measured at fair value through profit or loss	4	Gains/losses from financial instruments measured at fair value through profit or loss	4	-	-
Pre-tax profit from continuing operations	**1,211**	**PRE-TAX PROFIT**	**1,211**	-	-
Income tax	(229)	Taxes on income	(229)	-	-
NET PROFIT OF THE YEAR	**982**	**NET PROFIT FOR THE PERIOD**	**982**	-	-

Appendix 2 – Differences between financial statements according to IFRS and local requirements

Year ended 31 December 2019

BANK

Annual report (AR)	in HRK million	Statement of financial position (CNB)	in HRK million	Diff.	Explanation
Cash and cash balances	4,339	Cash on hand, Cash balances at Central bank and Other demand deposits	4,339	-	-
Financial assets held for trading	226	Financial assets held for trading	226	-	-
Non-trading financial assets at fair value through profit or loss - Equity instruments	10	Non-trading financial assets at fair value through profit or loss- Equity instruments	25	(15)	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	15	Non-trading financial assets at fair value through profit or loss- Debt securities	-	15	CNB - Equity instruments
Financial assets at fair value through other comprehensive income	9,961	Financial assets at fair value through other comprehensive income	9,961	-	-
Financial assets at amortised cost - Loans and advances	45,353				
Trade and other receivables	188	Financial assets at amortised cost- Loans and advances	45,541	-	-
Financial assets at amortised cost - Debt securities	1,464	Financial assets at amortised cost- Debt securities	1,464	-	-
Investments in subsidiaries, joint ventures and associates	1,027	Investments in associates, subsidiaries and joint ventures	1,027	-	-
Property and equipment	803			-	-
Investment property	3	Tangible assets	806	-	-
Intangible assets	121	Intangible assets	121	-	-
Tax assets - Deferred tax assets	75	Tax assets- Deferred tax assets	75	-	-
Other assets	356	Other assets	356	-	-
TOTAL ASSETS	**63,941**	**TOTAL ASSETS**	**63,941**	-	-

BANK

Annual report (AR)	in HRK million	Statement of financial position (CNB)	in HRK million	Diff.	Explanation
Financial liabilities held for trading- Derivatives	36	Financial liabilities held for trading- Derivatives	36	-	-
Financial liabilities measured at amortised cost- Deposits	53,730	Financial liabilities measured at amortised cost- Deposits	53,730	-	-
Debt securities in issue	672	Debt securities in issue	672	-	-
Other financial liabilities	127				
Finance lease liabilities	105	Other financial liabilities	232	-	-
Provisions	453	Provisions	453	-	-
Tax liabilities	8	Tax liabilities	8	-	-
Other liabilities	427	Other liabilities	427	-	-
Total equity	8,383	Total equity	8,383	-	-
TOTAL LIABILITIES AND EQUITY	**63,941**	**TOTAL LIABILITIES AND EQUITY**	**63,941**	-	-

Appendix 2 – Differences between financial statements according to IFRS and local requirements

Year ended 31 December 2019

					BANK
Annual report (AR)	**in HRK million**	**Income statement (CNB)**	**in HRK million**	**Diff.**	**Explanation**
Interest income	1,836				
Other similar income	67	Interest income	1,889	14	CNB- Gains or losses on financial assets and financial liabilities held for trading, net
Interest expense	(217)				
Other similar expense	(73)	Interest expense	(276)	(14)	CNB- Gains or losses on financial assets and financial liabilities held for trading, net
Fee and commission income	690	Fees and commissions income	690	-	-
Fee and commission expense	(186)	Fees and commissions expenses	(186)	-	-
		Gains or losses on financial assets and financial liabilities held for trading, net	211		
Net trading result	228	Exchange differences [gain or loss], net	17	-	-
Personnel expenses	(538)				
Other administrative expenses	(496)	Administrative expenses	(961)	(73)	CNB - Other operating expense
Depreciation and amortisation	(114)	Depreciation	(114)	-	-
Other operating result	(278)	Gains or losses from derecognition of non-financial assets, net	23		
Rental income from investment properties & other operating leases	-	Other operating income	33		
Net impairment loss on financial instruments	(72)	Other operating expense	(121)		
		Provisions or cancellation of provisions	(316)		
		Impairment or reversal of impairment on financial assets not measured at FVPL	(30)		
		I Modification gains or (-) losses, net	(1)		
		Impairment of non-financial assets	(11)	73	AR - Other administrative expenses
Dividend income	69	Dividend income	69	-	-
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	-	Gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	-	-	-
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	**919**	**PRE-TAX PROFIT**	**919**	**-**	**-**
Income tax	(166)	Taxes on income	(166)	-	-
NET PROFIT OF THE YEAR	**753**	**NET PROFIT FOR THE PERIOD**	**753**	**-**	**-**