Annual Report 2018.

Raiffeisen BANK

Annual Report 2018.

Introduction

2018 Business developments

RBI at a glance

Financial Statements

Contacts

Survey of key data

RBA Group – Monetary values in HRK millions

HRK millions	2018	Change	2017	2016
Income statement				
Net interest income	873	(4.38%)	913	988
Net commission income	463	(1.28%)	469	437
Trading profit (loss) and other income	468	(4.88%)	492	637
Administrative expenses	(1,233)	1.73%	(1,212)	(1,877)
Impairment losses	(221)	(42.75%)	(386)	(107)
Profit before tax	328	13.10%	290	695
Profit after tax	283	50.53%	188	535
Consolidated profit	283	50.53%	188	535
Balance Sheet				
Placements with and loans to other banks	1,532	71.36%	894	1,332
Loans from and advances to customers	17,463	(1.59%)	17,745	18,504
Deposits from banks	589	(44.22%)	1,056	441
Deposits from customers	26,233	10.32%	23,780	24,144
Borrowings	1,914	(25.58%)	2,572	3,992
Equity	4,506	(3.82%)	4,685	4,890
Balance-sheet total	35,165	2.89%	34,178	35,364
Regulatory own funds				
Own funds	4,121	(6.95%)	4,429	4,662
Total capital requirement	1,707	(1.33%)	1,730	1,847
Core capital ratio	17.24%	(0.40 p.b.)	17.64%	16.93%
Total capital ratio	19.32%	(1.16 p.b.)	20.48%	20.19%
Performance				
Return on equity (ROE) before tax	7.00%	1.07 p.b	5.93%	15.81%
Cost/income ratio	68.35%	3.68 p.b.	64.67%	61.40%
Earnings per share(HRK)	78	50.00%	52	147
Return on assets (ROA) before tax	0.95%	0.12 p.b.	0.83%	1.97%
Provisioning ratio /average loans froma and advances to customers	1.17%	(0.87 p.b.)	2.04%	0.45%
Resources				
Employees as at reporting date	2,121	(6.19%)	2,261	2,309
Banking outlets on reporting date	66	(2.94%)	68	70

Introduction

INTRODUCTION
2018 BUSINESS DEVELOPMENTS
RBI AT A GLANCE
FINANCIAL STATEMENTS
CONTACTS

Letter from the Chief Executive Officer

On behalf of the Management Board of Raiffeisenbank Austria d.d., I am delighted to present the key figures from the 2018 Annual Report as audited by KPMG, the international firm of auditors.

Last year, Raiffeisenbank Austria generated a profit after tax of HRK 219 million, while the profit at local Group level was HRK 283 million. The financial results confirm the success in adapting our business model to challenging business conditions. Historically low market interest rates reduced the interest income as well as total revenue. Operating expenses were realized without significant one-off effects and the provision for risks reflected the best estimation of the value of financial assets.

The Bank has been focused on the measures for the increase of operational efficiency. The usage of new advanced technologies improves the customers' experience, so, they expect the innovative financial services to be provided through modern communication channels. Over the year, the Bank increased the availability of products and services through modern distribution channels while maintaining a high level of security. Investments in digitalization and the modernization of the sales network enable clients to have a more meaningful relationship with the Bank. Adaptation to client needs is carried out in accordance with the highest standards within the RBI Group. The synergic effects are facilitated by the transfer of experience, knowledge and skills within the group on the principle of best practice.

Conditions on the financial markets have moderately changed during the year as well as the regulations of the operations of financial institutions. Conditions on financial markets were characterized by a constant surplus of liquidity. On the regulation side the innovative standards for financial statements have been implemented. Local regulators have also asked for the more restrictive approach in credit policies. The most significant change was the cessation of the operation of credit registry in the area of lending to individuals. The Bank has responded to growing business and regulatory requirements through adaptation of operational model. The resulting business result is a benchmark for the measurement of success in adapting of business model.

Financial markets in the European Union are opening up for new types of service providers. Entrepreneurs from the financial technology sector are developing the innovative financial services, thereby enhancing market competition. The Bank adapts to new forms of competition by developing services aimed at increasing customer satisfaction. Long-term relationships with customers and developed sales network represent the basis for technological innovation and upgrade in achieving Bank's recognition on the market.

Advanced technologies accelerate changes in the local market. The high level in adoption of innovations became essential to maintain recognition on the market. The Bank improves the operational model and conducts ongoing employee training to adopt new skills necessary to improve customer satisfaction. Human resources management is developed through a system of promotion and employee rewarding.

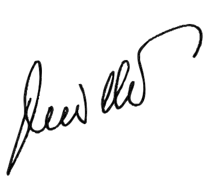
Raiffeisenbank Austria maintained its position as one of the leading credit institutions on the Croatian market. Together with the local Raiffeisen Group, it offers customers a comprehensive range of financial products and services. The sales network comprises 66 branches and alternative electronic distribution channels. Branches are being improved from the place where clients initiate transactions into the place for interactive communication with clients.

In the corporate segment, the offer of loans was enhanced through credit lines from local and international development banks, and customers are also provided with support for using European Union funding. The offer developed for SMEs is tailored to their specific needs. Demand for loans at individual customers changed owing to a higher level of financial literacy, resulting in more developed knowledge of exchange rate risk and interest rate risks. Non-housing cash loans are often required as straight kuna loans and with fixed interest rate. State subsidy scheme for young families positively influences on the demand for housing loans.

Within the local Raiffeisen Group, the process of integrating sales to optimize costs through process improvements is well under way. The downward interest rate trend on the debt instruments has a negative effect on the attractiveness of savings and investment products. Consequently, the demand for investment fund products is shifted from money to bond funds. In the last month of the year, the inaccuracies in pension regulations have been removed, and the growing public interest in pension savings results in an increase in the number of members in voluntary pension funds. In the area of savings and investment products, the attractiveness of the offer is adversely reflected by the tendency of reducing interest rates on money markets. Before the closing of the year, the Bank made a decision to discontinue the factoring activity in the subordinated company and continue to provide the same service for customers directly from the Bank.

To achieve the strategic goals and planned operating results, it is essential to adapt operations to market conditions and customer requirements. Through optimal use of our resources, we are improving service quality and operational efficiency. Along with the efforts of all employees in the local group, we continue to develop a comprehensive range of financial services. I would like to thank the management and all employees for their dedication to achieving the above goals. Finally, I would also like to thank all our customers and business partners and to express my confidence that we will continue to work together successfully.

Michael Georg Müller
Chief Executive Officer



Report of the Supervisory Board

Ladies and Gentlemen,

2018 was a decisive year for long-term operations of Raiffeisenbank Austria d.d. Zagreb. The implementation of a three-year long program for improving the operational model has begun to adjust the business with changes in financial markets and customer preferences. The process of digitizing in financial services requires a timely adjustment of the offer through the development of new types of services and innovative channels of sales and communication with clients. Therefore, the development of technology and business processes was between top-interests for members of the Supervisory Board, along with the traditional monitoring of the achievement of business results in relation to plans, as well as the processes and results in risk management.

In the 2018 financial year, the members of the Supervisory Board held four ordinary and eight extraordinary meetings. The overall attendance rate for Supervisory Board meetings in the 2018 financial year was around 81 per cent.
The Supervisory Board regularly and comprehensively monitored the business performance and risk developments at Raiffeisenbank Austria d.d. Zagreb. Discussions were regularly held with the Management Board on the adequacy of capital and liquidity as well as on the direction of the bank's business and risk strategies. The Supervisory Board also dealt at length with further development in the area of corporate governance and monitored the implementation of corresponding policies. In the course of its monitoring and advisory activities, the Supervisory Board maintained direct contact with the responsible Management Board members, the auditor and heads of the internal control functions. It also maintained a continuous exchange of information and views with representatives of the banking supervisory authorities on topical issues.

Moreover, the Management Board provided the Supervisory Board with regular and detailed reports on relevant matters concerning performance in the respective business areas. Between meetings, the Supervisory Board also maintained contact with the Chairman of the Management Board and the Management Board members. The Management Board was available where required for bilateral or multilateral discussions with members of the Supervisory Board, where applicable with the involvement of experts on the matters addressed by the Supervisory Board.

The work undertaken together with the Management Board was based on a relationship of mutual trust and conducted in a spirit of efficient and constructive collaboration. Discussions were open and critical, and the Supervisory Board passed resolutions after considering all aspects. If additional information was required in order to consider individual issues in more depth, this was provided to members of the Supervisory Board without delay and to their satisfaction.

In 2018, the Supervisory Board discussed the following specific and / or important issues: the Project of Business and Operating Model improvement and related changes in the organizational structure, Agrokor Status Update, Adaptive Digital Transformation, IT Architecture, Raiffeisen Factoring Integration, Sale of Raiffeisen mirovinsko osiguravajuće društvo d.d. (Pension Insurance Company), Business Opportunities in Tourism Sector, Corporate Banking Strategy, Risk Strategy 2019 and Risk Costs Strategy 2019-2021.

The Supervisory Board fulfilled its duties appropriately as defined by the local legislation and bank's articles of association.

The Supervisory Board approved the financial statements of the year 2018 on the walkaround meeting held on 10.05.2019.

I would like to take this opportunity to thank all employees of Raiffeisenbank Austria d.d. Zagreb for their hard work and unwavering efforts in 2018, as well as to ask for their continued commitment in tackling any challenges going forward.

On behalf of the Supervisory Board

Andreas Gschwenter,
Chairman of the Supervisory Board

Macroeconomic environment

Economic review

In 2018, the economy realized a real growth rate of 2.6 percent. Positive contribution to GDP growth comes from domestic demand, primarily from the increase in personal consumption, which grew by 3.5 percent year-on-year. Government consumption increased by 2.9 percent, while growth in investments in fix capital was 4.1 percent. Personal income growth was positively influenced by the reduction of the income tax rate as well as the fall in interest rates on consumer loans, which facilitated the burden of debt repayments for indebted households. The negative contribution to growth comes from foreign trade, as the 5.5 percent growth of imports exceeded the growth in exports of goods and services which was 2.8 percent.

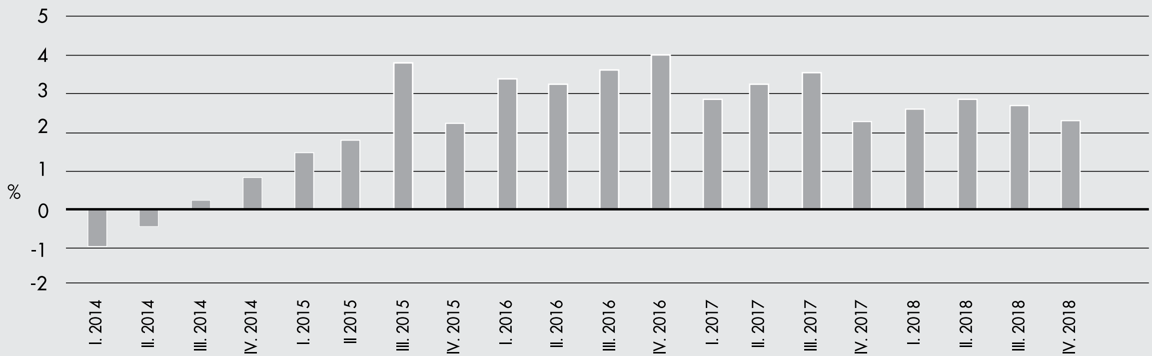
The Croatian economy is integrated into the European Union common market. The highly euroized financial system strengthens the influence of the euro area on domestic market. Over the past year, the European Central Bank (ECB) kept its core interest rates at historically low levels. In addition, the ECB increased liquidity in financial markets through the asset purchase program (APP). Net asset purchases were reduced from the average of EUR 30 bn per month in period from January to September to EUR 15 bn per month in the last quarter. With the expiration of the year the application of this measure has been completed in order to increase liquidity in the market, and in the forthcoming period the principle payments of APP bonds are to be reinvested.

A high level of liquidity in financial markets increases the supply of capital and reduces investors' risk aversion, which supports the downsizing of market interest rates. The European Central Bank has promoted growth in consumption, investment and employment. In the first half of 2018, the realized increase in inflation rate and employment in the Euro area reached the target levels. Therefore, the European Central Bank completed the asset purchase program and announced the beginning of the process of normalizing the basic interest rates in mid-2019. However, in the second half of the year, activities in the Euro area economy slowed down, while the inflation rate began to weaken. Such developments have led to a change in the forward guidance of the European Central Bank, and by the end of 2019 the first increase in the base interest rate is no longer expected.

Changes in external financial markets are transferred to domestic capital markets. The delay in the growth of basic interest rates in the Euro area extends the period for adjusting Croatia to future interest rate growth. The adjustment is implemented through fiscal consolidation measures and preparations for joining the European Monetary Union (Euro area). Credit rating of the Republic of Croatia is expected to return to the investment level spurred by the ongoing fiscal consolidation. It will increase the resilience of the financial system to potential shocks and enable the financing of economy at lower prices in relation to the markets with a sub-investment rating. The credit rating of the Republic of Croatia was maintained in 2018 below the investment level. Two of the three rating agencies (S & P and Fitch) changed the outlook from stable to positive. Investors in the financial markets anticipate a rating upgrade, so debt securities of the Republic of Croatia were traded last year at the price level of comparable countries with the lowest investment grade.

The lower risk perception is primarily due to the successful consolidation of government finances and the consequent reduction of the public debt ratio in relation to the gross domestic product (GDP). The contribution to positive outlook also gives an announcement of applications for entry into the Euro area. Croatia has met quantitative criteria for entering the Exchange Rate Mechanism (ERM II) and eliminated excessive macroeconomic imbalances, which increases the prospects that after a minimum of two years in the exchange rate mechanism will follow the introduction of the euro.

Gross domestic product, real growth rates, in %

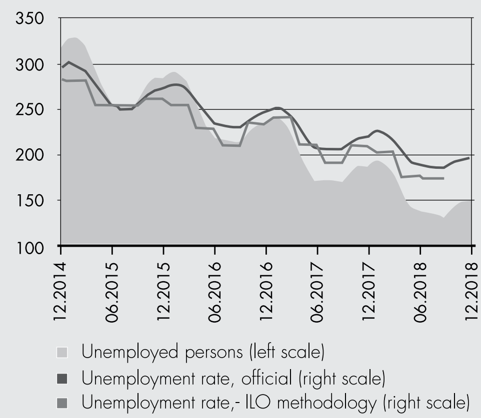


Sources: CBS, Raiffeisen Research

Consumer Price Index (inflation rate), annual changes, in%

Sources: CBS, Raiffeisen Research

Numbers of unemployed and registered unemployment rate



Sources: CBS, Raiffeisen Research

Macroeconomic Indicators

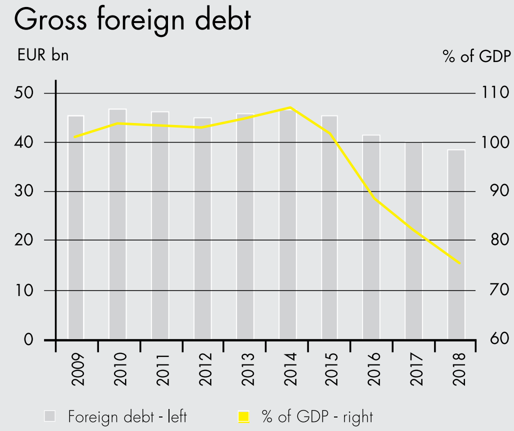
The period of achieving solid GDP growth rates from previous years continued in 2018, and unfavourable changes in the environment resulted in a slight slowdown in economic growth. Negative trends have been recorded in industrial production. It is obvious that the process of restructuring in the manufacturing segment has not yet been completed, as evidenced by the recent example of opening up problems in operations of shipyards. However, growth was achieved in the service segment, which enabled steady growth in domestic consumption. Stable and high growth rates of consumption should partly be grateful to the effects of spilling the growing tourist spending on the entire economy.

Labour market in 2018 marked a continued tendency of reducing the registered unemployment rate with the usual seasonal movements. During summer months the rate dropped to historically low 8.4 percent. By the end of central part of tourist season, the usual rise in unemployment started, with an average rate of 9.9 percent for the whole year 2018. Seasonally adjusted data suggesting a trend of change; points to a steady decline in unemployment rates over the year. Strengthening emigration movements accelerates the decline in the number of unemployed and an increasing problem for entrepreneurs is the lack of workforce for seasonal jobs. Strengthening labour demand encourages wage growth on one hand, but also the growth of political pressure to reduce taxes and contributions that burden the employees' incomes.

Positive movements in the balance of payments continued with a noticeable surplus on current and capital account. In 2018, the surplus at current account was at the level of 2.6 percent of GDP. The growing deficit in the goods account resulted from the faster growth of imports than exports. A negative balance on the goods account was neutralized by increasing the service account surplus. The main contribution comes from tourism revenues, which rose to 10.1 billion euros. The growing absorption of EU funds also positively affects the balance of payments as well as emigrants' remittances, while state payments by protested guarantees to shipyards have a negative impact.

The high liquidity of the domestic financial system has resulted in the equilibrium of the domestic capital cost with the price that potential borrowers can make on foreign capital markets, as well as by eliminating interest rate differentials in kuna loan offerings in relation to euro-denominated loans. The reduced price difference between the external and internal capital markets results in an increase in credit demand in the domestic market, with a consequent debt decrease on the external capital markets. Ultimately, the level of external debt is reduced in absolute terms as well as the external debt to GDP ratio, which has fallen to 75.6 percent at the end of 2018.

Gross foreign debt



Sources: CNB, Raiffeisen Research

Fiscal and monetary movements

In 2018, a successful fiscal consolidation process continued. In December, payments from protested guaranties to the Uljanik shipyard amounted to HRK 2.5 billion, resulting in a balanced general government account. However, structural surplus has been achieved in the budget, so with the growth of the economy, the ratio of public debt to GDP ratio fell to 74.1 percent.

The public finance consolidation was achieved under favourable cyclical conditions and with minimal structural changes. On the revenue side of budget, there has been a significant increase in revenues from indirect taxes (VAT) and social contributions, which is the result of growth in business activities and employee contributions. Total revenues from direct taxes have increased due to higher income tax revenues, while revenues from income taxes were reduced in line with the tax reform.

On the side of budget expenditures, the unrealized implementation of structural measures resulted in the absence of desirable changes. Government borrowing costs recognized through interest expenses are lowered due to the general fall in market interest rates and the realized refinancing of debts. Reduced investments stem from the slowdown in the public investments. However, due to the alignment of pensions, the social security expenditures have risen, as well as the expenses for salaries and other employee compensation in public services segment.

Monetary policy remained committed to maintaining the stability of kuna against the euro. Processes at financial markets and in economy have pushed the EUR / HRK exchange rate to lower values. In 2018, the average exchange rate HRK/EUR was 7.414111 that is 0.6 percent lower year-on-year. Thanks to the central bank’s commitment to maintaining the stability of exchange rate, for more than two decades kuna has been one of the most stable currencies in Central and Eastern Europe region.

In the periods of economic growth, the kuna is exposed to appreciation pressures against the euro. The CNB intervened five times in the foreign exchange market and with the purchase of foreign currency in the amount of EUR 1,808.9 billion neutralized the growing appreciation pressures. In addition to reduced fiscal risks and significant foreign exchange inflows, the support domestic for currency came from the surplus on the current account of the balance of payments, the positive net-foreign position of banks, as well as the growing demand for loans in kuna.

Summary of macroeconomic indicators for the period from 2014 to 2018

	2018	2017	2016	2015	2014
GDP & Production					
Gross Domestic Product, % (constant prices)	2.6	2.9	3.5	2.4	-0.1
GDP at current prices (EUR millions)	51,365	48,991	46,638	44,610	43,435
GDP per capital at current prices (EUR)	12,537	11,782	11,094	10,531	10,254
Retail trade, % real annual changes	3.9	4.4	4.4	2.4	0.4
Industrial production, % annual changes	-1.0	1.4	5.3	2.7	1.2
Prices, Employment and Budget					
Consumer Prices, %, end of period	0.8	1.2	0.2	-0.6	-0.5
%, average	1.5	1.1	-1.1	-0.5	-0.2
Producer Prices, %, end of period	0.5	2.1	-0.1	-4.4	-3.4
%, average	2.3	2.1	-4.1	-3.9	-2.7
Unemployment rate (official rate, avg) *	9.9	12.1	14.8	17.0	19.6
Unemployment rate (ILO, avg)	8.4	11.2	13.1	16.4	17.3
Average net wage, in Kuna *	6,241	5,984	5,685	5,594	5,534
General Government Balance, % of GDP[1]	0.0	0.9	-0.9	3.4	-5.1
Public Debt, HRK bn[1]	282.8	284.3	282.8	284.4	278.5
Public Debt, % of GDP[1]	74.1	77.8	80.5	83.7	84.0
Balance of Payment and External Debt					
Good's and Services Exports, EUR million	26,590	25,143	22,785	21,473	19,677
% change	5.8	10.4	6.1	9.1	4.9
Good's and Services Imports, EUR million	26,038	24,070	21,462	20,448	18,855
% change	8.2	12.2	5.0	8.5	1.4
Current Account Balance, % of GDP	2.6	3.7	2.6	4.5	2.0
Official International Reserves, EUR millon, eop	17,438	15,706	13,514	13,707	12,688
Official International Reserves, in terms of months of imports of goods and services, eop	8.0	7.8	7.6	8.0	8.1
Foreign Direct Investment, EUR million,[2]	1,110	1,747	1,716	190	2,298
Tourism - nightstays, % change	4.0	10.5	9.1	7.8	2.6
External debt, EUR billion	38.8	40.2	41.7	45.4	46.4
External debt, as % of GDP	75.6	82.2	89.3	101.7	107.9
External debt, as % export of goods and services	146.1	160.1	182.9	211.4	235.9
Monetary and Financial Data					
Exchange rate, eop, USD / HRK	6.47	6.27	6.99	6.99	6.30
avg, USD / HRK	6.28	6.62	6.80	6.86	5.75
Exchange rate, eop, EUR / HRK	7.42	7.51	7.56	7.64	7.66
avg, USD / HRK	7.41	7.46	7.53	7.61	7.63
Money (M1), Kuna billion, eop	120.0	99.4	83.5	70.7	63.4
% change	20.7	19.1	18.1	11.4	9.6
Broadest money (M4), Kuna billion, eop	324.0	307.2	300.9	287.4	273.3
% change	5.5	2.1	4.7	5.1	3.2
Credits, Kuna billion	223.2	218.9	221.5	230.0	237.0
% change	2.0	-1.2	-3.7	-3.0	-1.6
ZIBOR 3m, %, avg	0.5	0.6	0.9	1.2	1.0
Treasury bills rate 12m, %, avg	0.1	0.8	1.4	1.9	1.8

1 according to the ESA 2010 methodology

2 including round-tripping

* series broken as of January 2015 (new CBS's methodology)

eop - end of period; pa - period average

2018 Business developments

INTRODUCTION
2018 BUSINESS DEVELOPMENTS
RBI AT A GLANCE
FINANCIAL STATEMENTS
CONTACTS

Officers of the Bank

The Bank's operations are controlled by the Supervisory Bord and the Management Bord. The officers of the Bank serving during the 2018 year, were as follows:

Members of the Supervisory Board

Andreas Gschwenter (Chairman)
Peter Jacenko (Deputy Chairman)
Marcus Kirchmair (Member)
Lovorka Penavić (Independent Member)
Kemal Kozarić (Member until 5 September 2018)
Sabine Zucker (Member)
Harald Kreuzmair (Member)

Members of the Management Board

Michael Georg Müller
Chairman

Ivan Žižić
Member

Daniel Mitteregger
Member

Liana Keserić
Member

Zoran Košćak
Member

Marko Jurjević
Member

Višnja Božinović
(Member from 14 November 2018)

Chief executives

Emilija Sertć	Financial Institutions, Funding and Custody
Robert Mamić	Markets
Nikola Karin	Corporate Products
Dubravko Lukač	Non-retail Credit Risk Management
Ivan Vidaković	Private Individuals Sales Network
Irena Kovačević	Business Intelligence
Enkelejd Zotaj	IT
Sanja Vučković	Retail Credit Risk Management
Zoran Vučičević	Legal
Irena Bašić Štefanić	Human Resources and Organisational Development
Petar Milić	Internal Audit
Boris Vuksan	Finance
Ivka Međugorac	Sales Management
Jasminka Rojko	Large Corporate Clients and Structured Finance
Toni Jurčić	SME and Mid Market Segments and Network
Ines Knapić	Collections and Workout
Ivana Hobolja Škrtić	CRM and Digital Channels
Ivica Jerkić	Central Operations
Tanja Ožbolt Sterle	Risk Controlling
Ivana Jelaš	Asset and Liability Management
Renata Gecan Milek	Private banking
Nikolina Bogati	Marketing and Public Relations
Iva Bakija	Executive and Participation Management
Tomislav Ilijaš	Process and Project Management
Goran Marinov	Procurement and General Services
Ivica Tonči Krvavica	Security
Igor Mataić	Investment Banking
Ivan Sobin	Compliance
Zrinka Živković Matijević	Economic and Financial Research

Vision

We will be the Number 1 bank in Croatia in terms of customer satisfaction and employee pride. Our customers will most frequently be recommending us to others, and that will be a strong foundation for our repositioning among leading banks in the Croatian market. Our success will be an incentive to all our employees and shareholders to continue to reinforce the bank's role in Croatia's economy.

Mission

We are a highly-motivated team of finance professionals who always go the extra mile for our customers so that they can always be a step ahead in the accomplishing their personal and business plans. Our services are based on the experience of our staff, our European banking tradition and modern requirements of bank customers. In each interaction, we want our customers to feel the simplicity of banking with us, as well as the speed and availability of our services. We listen to and understand our customers and build a lasting partnership with them. We feel proud about the success of each of our customers. Then our mission is accomplished.

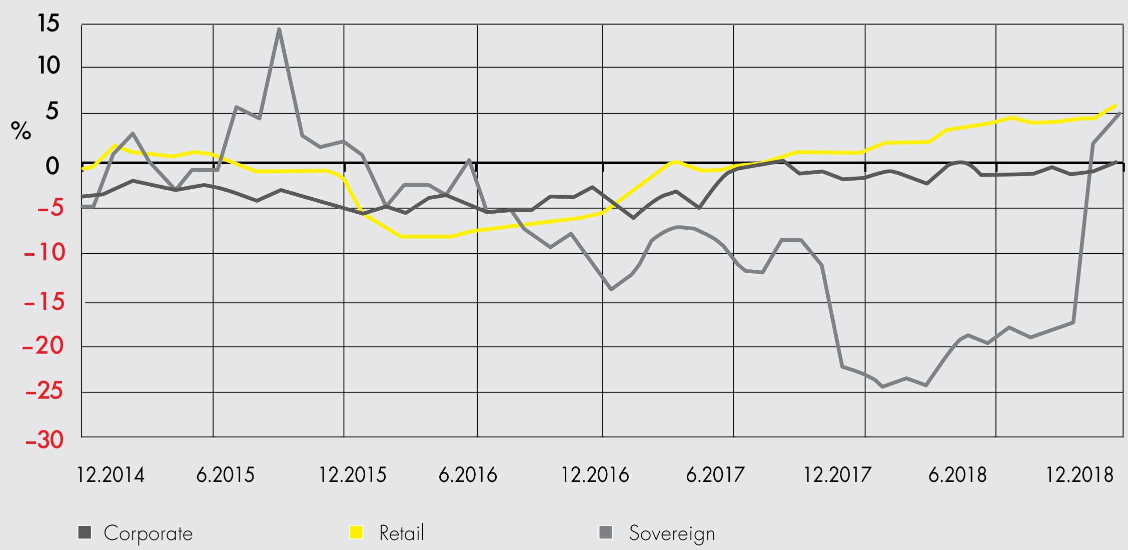
Management report

Market position

The Raiffeisenbank Austria d.d. (the Bank) and members of local group are registered for operations in the Croatian financial market. The Bank is a system important credit institution at local market with the significant market share. At the end of 2018 the Bank was the fifth in the market per total assets, with an eight percent market share. Raiffeisen Building Society is subordinated to the Bank. It is one of four credit institutions on local market licensed for providing services defined by special regulations. Other financial institutions subordinated to the Bank are licensed for leasing and factoring activities, as well as the investment and pension management companies. These subordinated financial institutions are significant for the local market.

In 2018, the Bank issued a decision to cease the factoring activity in the subordinated company. After the revocation of the operating license, the company will change its activity and name in Raiffeisen Services d.o.o. and in the next period will be merged into the Bank. The Raiffeisen Pension Insurance Company is the only one registered for this activity in the market. In 2018, the Bank entered into a contract for the sale of a majority stake in the Pension Insurance Company. The Bank has requested the approval of the transaction, but by the end of 2018 the consent of the regulator has not been received yet.
The beginning of the year 2018 marked a change in the regulation of housing lending. The introduction of more

Loan growth by client segments, in %, annual level



Sources: CNB, Raiffeisen Research

restrictive rules for the assessment of creditworthiness for potential borrowers, the possibility of granting housing loans to borrowers with incomes below the average has been reduced. Consequently, in the second part of the year cash loans to households with longer maturities were accelerated rapidly.

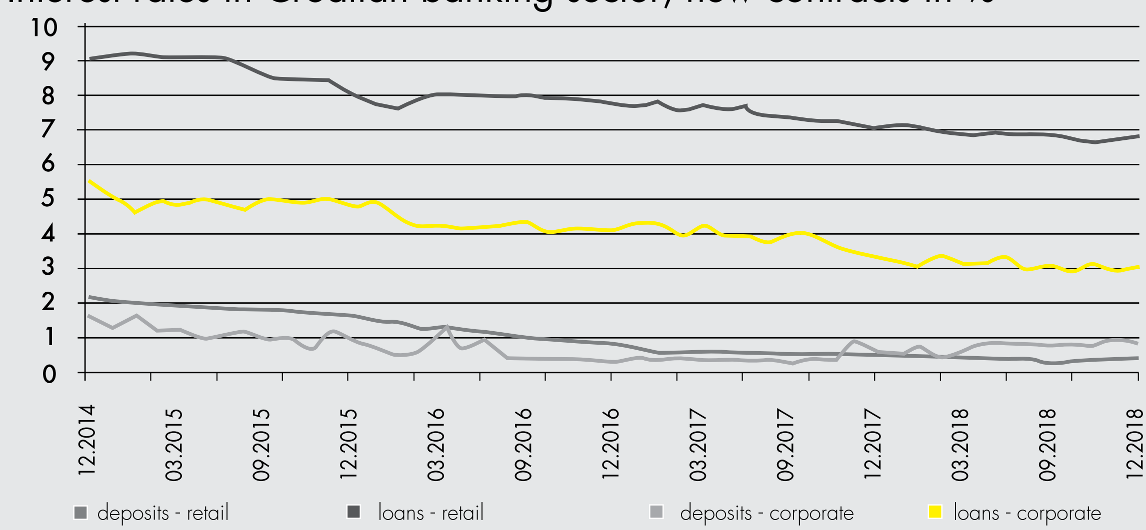
In May 2018, the regulation of personal data protection (GDPR) locally came into force. Significant changes in the operations of credit institutions occurred regarding the functionality of the credit registry. The Credit Registry has stopped producing credit reports for individuals. Consequently, credit institutions has adapted to a reduced set of data, starting to use the different dataset for the estimation of credit risk of a potential borrower and also changed their credit policies in individuals segment.

Challenging was the environment for business operations in corporate segment, too. In the first part of the year, most of the business activities were affected by the financial restructuring process in the Agrokor Group. Till the mid-year Agrokor's management made a deal with creditors and the uncertainty level about market tendencies was reduced. However, in the second half of the year, a new crisis has been opened in the corporate sector, as the Uljanik shipyard lost its ability to meet creditors' obligations. The direct impact of shipbuilding on the financial sector is considerably lower than in the case of Agrokor. But the payments of state guarantees issued in favor of shipbuilding spread the crisis to the central government budget.

Operation results of the Bank and the Group depend on the conditions in the financial market and changes in the real economy. The growth in the economy and the high liquidity in the financial system have improved the collection of customer receivables, which has positively affected the performance of credit institutions as well as other financial institutions that offer credit substitutes on the market. Market developments at the end of the year were adversely affected by the valuation of assets under the management in investment and pension funds.

The capital supply on the Croatian financial market in 2018 increased as a result of the growing surplus liquidity in the system. Demand for loans was not enough to absorb market surpluses in capital on the supply side. Consequently, excess supply over demand has exerted pressure on the price of capital. Money market rates fell to the historically lowest level as well as interest rates offered by banks on customer deposits. During the year, interest rates on loans decreased as well, which had a positive effect on the disposable income of enterprises and households, and thus on the ability of the debtors to settle loan obligations.

Interest rates in Croatian banking sector, new contracts in %

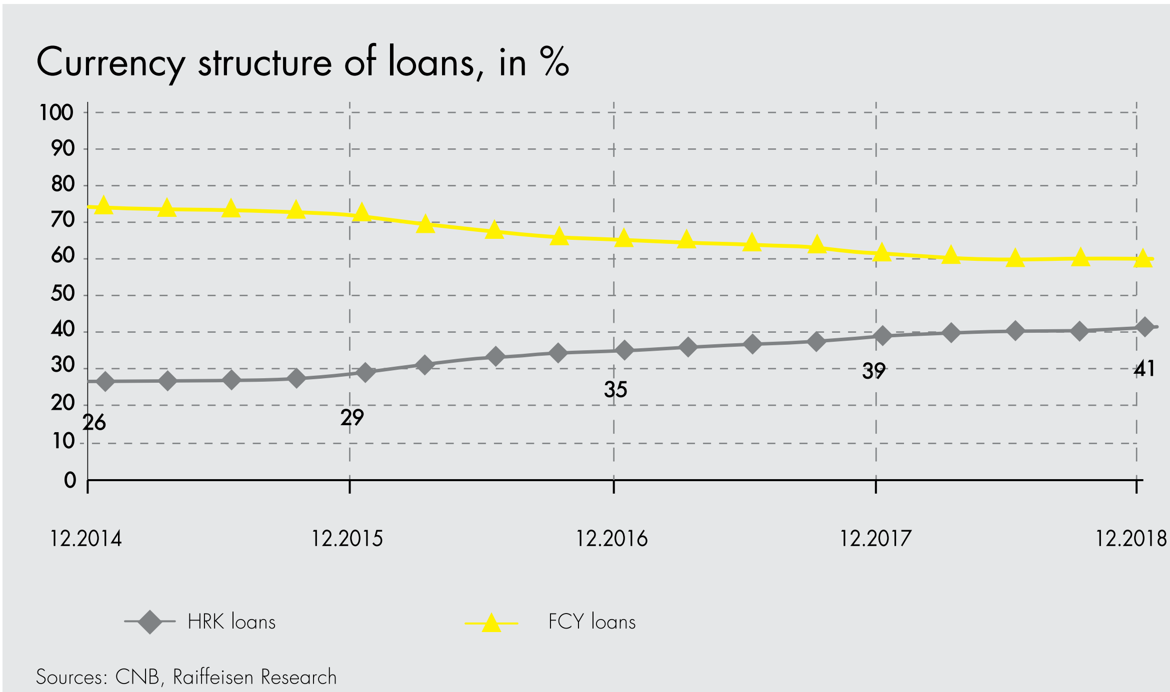


Sources: CNB, Raiffeisen Research

The fall in interest rates on deposits did not adversely affect the level of deposits in banks. Due to the high aversion to investments in more risky types of financial assets, clients kept deposits in banks. The excess of deposit supply resulted in lower interest rates offered by banks on time deposits. On demand deposits the bank does not offer interest yields, and the offer of interest yields for new long-term time deposits in 2018 was close to zero. Due to unattractive yield on time deposits, after the expired time deposit contract the clients usually leave their deposits at demand rather than contracting a new term deposit. As a result, in 2018 the share of time deposits in total customer deposits decreased by an additional 8.8 percentage points, and at the end of the year the share of clients' time deposits in total deposits was 43.2 percent in banking sector.

The high level of euroization in deposits decreases in parallel with the fall in client motivation to contract time deposits. The participation of foreign currency in total time deposits declined slightly in the last year, from 78 to 76 percent. For demand deposits, the share of foreign currency in total deposits has increased slightly to 44 percent. Due to the uneven currency structure of time and demand deposits, the reduction of participation of time in total deposits results in the increase in share of kuna in total deposits.

The faster growth of client deposits in relation to loans increased the share of primary sources of financing in banks' balance sheets, while the share of secondary sources became negligible for the price of capital formation in the domestic financial market. Changes in the currency structure of deposits correspond to changes in demand for loans, as the growth of kuna deposits supports the increase in demand for kuna loans.



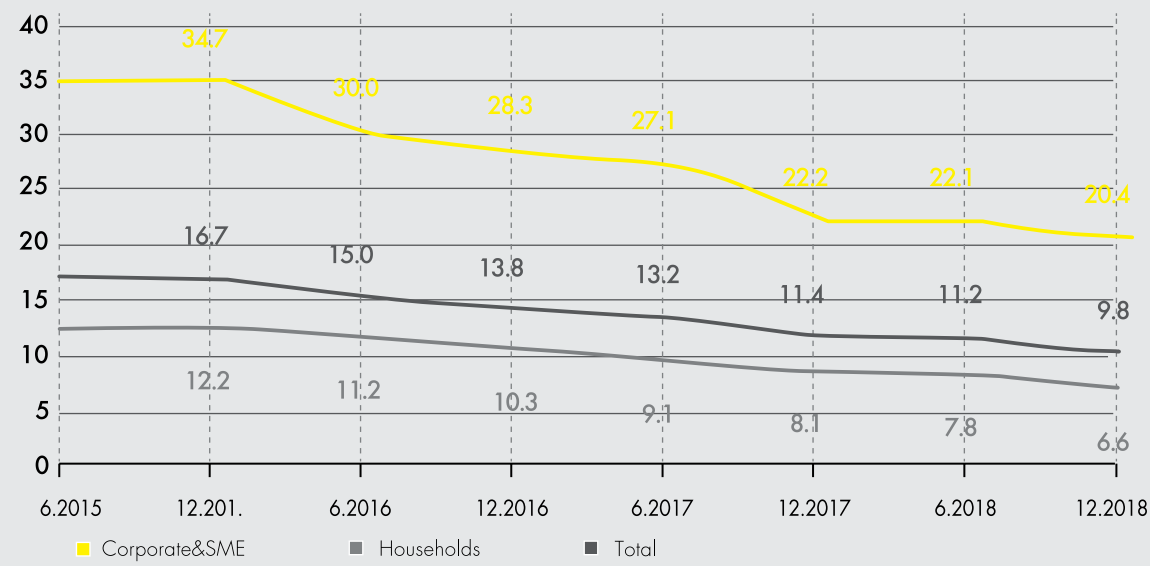
Under conditions of historically low interest rates on loans, demand for loans with longer maturity to maturity and with fixed interest rates is growing. Thus, clients try to fix the cost of financing at a low level and in subsequent years of repayment of loans, when they expect an increase in market interest rates. The increased use of long-term loans in kuna with fixed interest rates (in the initial repayment period or until maturity) results in widening the maturity gap in the bank's structure of balance sheet due to the simultaneous decrease in the average maturity on the side of funding sources.

The general downward trend in credit risk on the Croatian financial market has been reflected in the decline in the share of non-performing loans in total. In the past year, banks continued the process of clearing the loan portfolio. With debtor settlements, the sale of non-performing loans (NPLs) to companies specialized in collection of receivables was also significant. In 2018, a total of HRK 5,393 million was sold. The realized sale of loans had a negative effect on the amount of total loans in the balance sheets of credit institutions, but at the same time it accelerated the decrease in the ratio of non-performing loans in total loans. At the end of 2018, the NPLs ratio in the banking sector was reduced to 9.8 percent, down 1.4 percentage points from the previous year.

In retail business with individuals, the demand for loans and the elasticity of savings depend on the changes of real income and the expected value of the property owned by population. The real burden of loan instalments was reduced due to lower interest rates on loans. In addition, the real income of population was increased due to a decrease in the income tax. Positive shifts in the disposable income of population have increased the demand for loans. Due to the increased restrictiveness of housing loan regulations for a group of clients with incomes lower than average, demand has increased for cash loans with longer repayment periods, which substitute housing loans. The response of the regulator to the accelerated growth of cash non-purpose loans with longer repayment deadlines was announced in the second half of 2018 and followed in February 2019 with the issuance of the Recommendation on the procedure for granting non-housing loans to consumers. With this recommendation, the regulator seeks to equalize the conditions for approving housing loans with conditions offered to clients for cash non-purpose loans with a repayment term longer than five years.

Croatian banking system is significantly exposed to the risk of the Republic of Croatia. Factors of a high level of state risk in bank assets are not only the direct or indirect borrowing of the state on the domestic financial market, but also the regulation by which the central bank maintains financial stability. Additional factors of sovereign risk exposure are the excess liquidity held by banks on the CNB's accounts and the investing activity in debt instruments of the Republic of Croatia, direct borrowing by banks and other financial institutions, and state guarantees for loans from

NPLs ratio, eop in %



Source: CNB, Raiffeisen Research

public or private companies. Based on the obligatory reserve of the bank, the bank keeps part of the liquid assets in the accounts with the Croatian National Bank. At the end of 2018, the obligatory reserve amounted to 12 percent of the bank's liabilities. The CNB does not pay any interest on the required reserve assets.

In line with changes in financial market conditions, the Bank's credit policy last year was slightly relaxed, except in the area of lending to individuals where the application of regulations had a decisive influence on restrictive nature of credit policies. Market conditions favoured the pursuit of the credit policy goals as, alongside the growth of the economy; the average risk in the corporate sector was reduced. In the individual's segment, the secular trend of falling employment has been halted, and due to increased labour demand and tax release the real wages have increased. The quality of the loan portfolio in the individual's segment is better than in the corporate. But, affordable trends in real economy reduce credit risks in corporate segment.

Business activities of the Bank

Raiffeisenbank Austria d.d. (the Bank) was registered in December 1994, as the first bank in Croatia to have been founded by foreign capital. Its business strategy is focused on developing and offering its customers a comprehensive range of financial services. Along with the expansion of its branch network, since 1999, the Bank has established financial service companies for the fields governed by special regulations (the local Raiffeisen Group). At the end of 2018 the bank served customers via 66 branches, 459 ATMs in the bank's own network and additional 964 ATM's in partnership with Euronet; through twelve thousand POS devices contracted with merchants in Croatia and through additional digital sales channels.

To achieve its vision of a comprehensive range of products and services, the Bank has often led the way in the development of the Croatian financial market. Since the founding, it has developed through organic growth – initially by increasing sales of banking products and services, and then by setting up subsidiary companies specialized in specific financial services.

In the period leading to the incorporation of the Croatian banking system into the European banking union, in which all European banks operate under common rules and a single supervisor, the Bank operates in accordance with the rules of the local regulators for supervising the operations of credit institutions (the Croatian National Bank) and for supervising financial services (the Croatian Financial Services Supervisory Agency). All members of the local Raiffeisen Group are registered in Croatia and operate under Croatian regulations.

Customer demand for financial services and changes in market regulation on one hand, and competitiveness of the offered services determine the operations of the Bank and the local Group. The Bank applies the corporate culture of agile access to business improvement, enabling it to reach the highest level of excellence and value for its customers, while at the same time increasing internal efficiency. The strategic goal of the business is to increase customer satisfaction, achieved through dynamic organization development, quality service improvement, and a teamwork and employee motivation.

At year-end, there were 1,885 employees in the Bank. The number of employees decreased due to changes in the operating model. Increased use of digital sales channels and self-service devices reduces needs for workforce at jobs with lower complexity and increases the need for specialists in the use of advanced technology platforms. The adjustment process in the employee structure will continue in the coming years. The number and structure of employees are defined by the long-term strategic plan, and are aligned with regulatory requirements and business plans. The Bank is managed by the Management Board, which in 2018 has been extended from six to seven members.

Financial result of the Bank

Total assets at the end of 2018 amount to HRK 32,629 million for the Bank stand alone. As compared to the previous period, it increased by HRK 1,250 million. At the customer loans is realized a decrease of HRK 354 million, while liquid assets increased by HRK 1,537 million. The increase in assets was due to the growth of liquid assets resulting from the growth of customer deposits. The share of liquid assets in total assets increased to 46 percent and the share of loans to customers decreased to 49 percent. Total loans to customers amounted to HRK 16,099 million at the end of the year and decreased by 2 percent year-on-year.

The application of restrictive regulations for housing lending to consumers has limited the possibility of granting housing loans to a part of the lower-income population. In the second part of the year, amendments to the regulations for the use of state subsidies for housing loans facilitated the access of potential borrowers to subsidies, which stimulated a demand for housing loans.

In the retail segment, the currency structure of loans to individuals continued to change. Euro-denominated loans are gradually repaying and new loans are mostly contracted in kunas. Consequently, the share of kuna in total loans has increased. Loans to individuals indexed by the foreign exchange rate decreased by 9 percent in the annual period, while the kuna loans increased by 6 percent. At the end of the year, kuna loans exceeded 64 percent of total loans to individuals.

In the individuals segment the demand for loans with a contracted fixed interest rate prevailed over the variable interest rate. Regulatory warnings about possible market interest rates rise in the near future have increased borrowers' awareness of interest rate risks. For loans with a repayment period of two to seven years, consumers usually settle fixed interest rate until maturity because the difference in relation to the variable interest rate risk is not significant. However, in housing loans with a longer repayment period still prevail the contracting of variable rate loans. Favourable price of hedging against the interest rate risk motivated clients with loans with a long payout period to require a temporary fixed interest rate in the initial period of loan repayment.

Bank financial highlights for the period from 2014 to 2018

Bank HRK millions	2018	2017	2016	2015	2014
From the Balance sheet 31 December					
Total assets	32,629	31,379	31,416	31,181	31,419
Shareholders' equity	4,226	4,458	4,450	4,014	4,827
Customer accounts	25,380	23,020	23,285	22,964	22,698
Loans to customers	16,099	16,453	16,213	17,387	19,035
From Income statement for the year ended 31 Deceber					
Operating income	1,353	1,439	1,557	1,448	1,604
Operating expenses	884	1,105	1,481	822	853
Profit before tax	239	475	585	(311)	364
Net profit for the year	219	396	460	(241)	294
Ratios	%	%	%	%	%
Return on average shareholders' funds	5.39	9.74	11.46	(5.75)	6.48
Return on average assets	0.68	1.26	1.47	(0.77)	0.91
Capital adequacy ratio (in accordance with the Croatian National Bank methodology)	20.60	22.48	22.18	21.13	21.33
	HRK	HRK	HRK	HRK	HRK
Earninhs per share	60	109	127	(66)	81

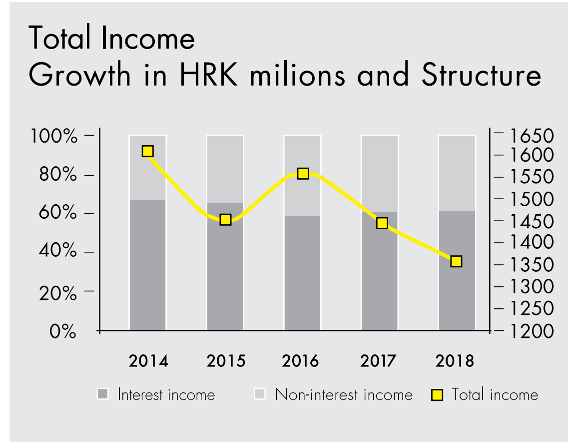
Total customer deposits in the previous year increased by HRK 2,360 million. The growth of deposits with corporate and other non-credit companies by 18 percent was faster than the 4 percent growth of deposits with the individuals. Deposits of individuals at the end of year amounted to HRK 13,783 million, with a share of 49 percent in total liabilities of the Bank. Under constant liquidity surplus, the Bank reduced its yields on time deposits, seeking to motivate clients to invest in riskier types of financial assets. Due to lower returns on alternative types of investment and high aversion to risk at individuals segment, total individuals deposits have not been reduced. Indeed, they increased with the accelerated change in structure: time deposits decreased by 16 percent and demand deposits after a 29 percent growth year-on-year increased their share in total deposits of individuals to over a half 56 percent. For corporate and other non-credit companies, the share of demand deposits in total deposits is 93 percent.

Total capital and reserves of HRK 4,226 million compared to the beginning of year decreased by 5 percent. At the end of year, the capital adequacy ratio for the Bank stand alone was 20.60 percent.

In 2018, the Bank realized profit after taxation of HRK 219 million. As the high liquidity prevailed at the financial markets, the resulting reduction in interest rates motivated the Bank to decrease contracted interest rates on the assets side but also on the liabilities side. Returns on debt investments have also been reduced, but there is a gain realized on revaluation of the portfolio being valued at market prices.

Net interest income declined by 5 percent year-on-year due to falling interest rates on loans and debt instruments. Net income from fees decreased by 3 percent, while net income from trading in financial instruments and other income decreased by 11 percent.

Total operating expenses amounted to HRK 884 million, down by 20 percent year-on-year. However, a significant impact on operating costs came from one-off effects. In the base period, the HRK 268 million decrease in the value of investments in the subordinated company Raiffeisen Factoring and HRK 8 million of the conversion costs based on the debtors' subsequent demands. In the current period, the HRK 29 million additional decrease in the value of investments in Raiffeisen Factoring, a further HRK 9 million decrease in the value of investments in the company Raiffeisen Consulting and HRK 3 million of the conversion costs for subsequent demands. It follows that the Bank's regular operating expenses adjusted for one-off effects increased by 2 percent.



Personnel costs remained at the same level. An increase of 10 percent is realized at the expense of depreciation of assets, while on material and other administrative costs a growth is 3 percent. Deposit insurance premiums are calculated on the basis of the amount of insured deposits, and the premium level depends on the risk profile of the Bank. Liabilities for deposit insurance premiums remained the same as in the previous year, while the cost of establishing a banks' resolution fund was reduced by 19 percent.

Based on the risk result the Bank's operating result was reduced by HRK 230 million. The largest negative impact on the provisioning costs was realized on the loan portfolio in individuals segment. Applying Group standard rules for compliance with International Standard for Reporting IFRS 9, the models for credit risk assessment and collateral values were set up. Consequently an additional provisions amounting to HRK 205 million were formed. Expenses on provisions in other segments of the business were not significant. The growth of the economy realized under the conditions of significant liquidity surpluses in the financial system positively affects the collection of receivables. Increasing real estate market prices makes it easier to sell real estate taken into the bill for collecting receivables.

Business development of the Bank

The founder of Raiffeisenbank Austria d.d. is Raiffeisen Bank International (RBI), an Austrian banking group managing a network of banks and related financial institutions in the region of Central and Eastern Europe (CEE). Membership of a powerful international banking group with a broad range of financial services allows the transfer of experience from many years of operations in developed financial markets and developing markets. Positive synergy effects are created when introducing more advanced operational support and in setting high quality standards when working with customers, thus enhancing the product range and encouraging innovation among employees.

Along with the activities aimed at increasing operating income, the business development also includes measures to improve work productivity and safety standards, technological improvements and further develop the business process management. All professional, organizational and technological resources available are focused on increasing service quality and reducing unit costs per transaction. Investment in technology and the development of business processes forms the basis of the Bank’s innovative product range and the development of financial services that are responsive to customer demand.

The Bank's development priority is to adjust to changes in the regulation of credit and other financial institutions. It is implemented through enhancing the functionality of the support system. Priorities after the regulations are requirements for business process development and support to adjust the offer to market conditions. Improvements are also being pursued for the purpose of streamlining business processes within the equity-linked international financial group (RBI). In future business, the Bank does not expect a significant growth in demand for loans, but expects new competitors to enter into customer services. Therefore, development activities are geared towards increasing the quality and innovation in the offer of services, where we expect the greatest competition in the upcoming period.
Strategic goal in business development is the introduction of innovative sales channels, both for standard and for new types of services sold on digital platforms. In this way, the Bank and the Local Group adapt to customer requirements but with constant care to maintain high quality of service and customer transaction security.

Events after the end of the financial year

At the Bank's request filed in October 2018, the local financial institution regulator (HANFA) in February 2019 cancelled the permit for operations of Raiffeisen Factoring. After receiving the regulator’s decision, the Bank initiates

the process of changing the names and activities of the company. By the end of the year, it is planned to merge the company with the Bank.
The regulator of credit institutions (CNB) has issued a Recommendation on the Treatment of Non-Housing Loans to Consumers. The recommendation seeks to equalize the assessment of consumer creditworthiness when approving long-term cash loans with an estimate of creditworthiness when approving housing loans. The Bank will incorporate the provisions of this Recommendation in Credit Policy, which will reduce the availability of long-term cash loans to consumers with income below the average. In the longer period in business with consumers that would result in a reduction in credit risk.

Research and development activities

In 2018 the Bank worked on improving its business processes and support, but did not participate in any research and development activities. It maintained its position among the leading financial institutions with regard to the application of modern technologies in their approach to the customers

Information on repurchase of own shares

Raiffeisenbank Austria did not repurchase its own shares in 2018.

During the year, the Bank carried out recapitalization of Raiffeisen Factoring subordinated company in the total amount of HRK 66 million. The total value of the Bank's investment after recapitalization increased the initial HRK 2 million to HRK 68 million. Due to the losses incurred in the subsidiary's business, the Bank has carried out an impairment loss of HRK 29 million and the remaining value of the investment after corrections is HRK 39 million at the end of the year.

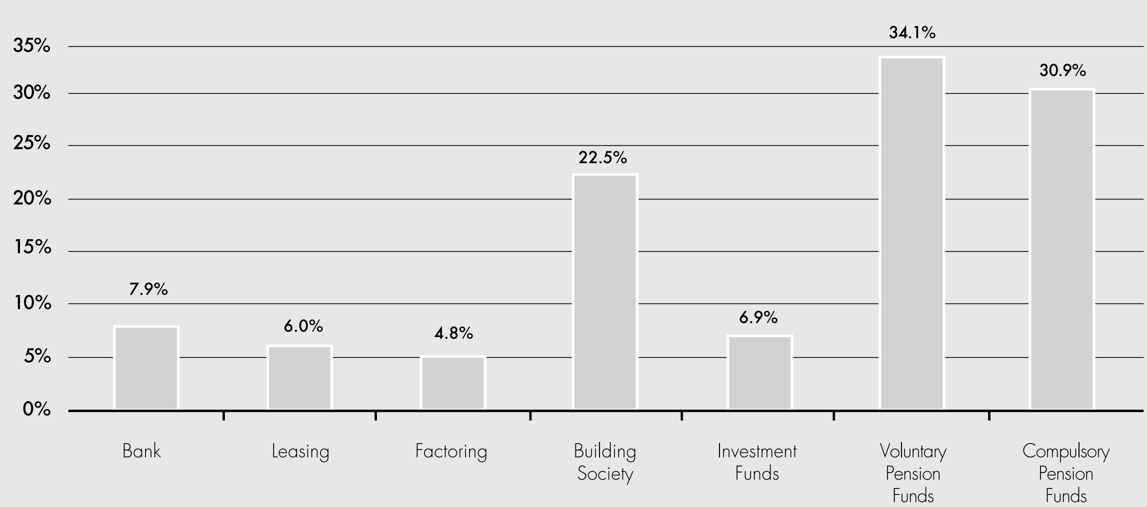
Bank subsidiaries

Raiffeisenbank Austria d.d. commenced operations on the Croatian financial market in December 1994, when it founded a universal commercial bank. Since 1999, it has developed its local Group of subsidiary legal entities. Raiffeisen Group's developmental goal is to offer its customers a comprehensive financial service.

At the end of 2018, the local Raiffeisen Group consisted of the following legal entities, which are wholly owned by Raiffeisenbank Austria:

- Raiffeisen Stambena Štedionica d.d. (building society)
- Raiffeisen Društvo za Upravljanje Obveznim i Dobrovoljnim Mirovinskim Fondovima d.d. (pension funds management company)
- Raiffeisen Mirovinsko Osiguravajuće Društvo d.d. (pension insurance company)
- Raiffeisen Invest d.o.o.
- Raiffeisen Factoring d.o.o
- Raiffeisen Leasing d.o.o.
- Raiffeisen Consulting d.o.o.

Market Shares of Raiffeisen Group Members



At the end of 2018, Group assets totaled HRK 35,165 million and increased annually by 3 percent. In the structure of assets, loans to customers were reduced by HRK 282 million, while liquid assets increased by HRK 1,602 million.

At the end of 2018, the assets under management in the three compulsory pension funds amounted to HRK 30,357 million, and in one open and six closed voluntary pension funds an additional HRK 1,442 million. In the structure of pension fund assets under the management of company, 95 percent refers to the assets of compulsory pension funds. The number of members at Raiffeisen Pension Funds at year-end was as follows: 579 thousand in compulsory and 77 thousand in voluntary pension funds. The annual growth of assets under management of 7 percent is based on contributions paid by fund members and on fund returns.

Assets in investment funds decreased by 4 percent and amounted to HRK 1,399 million at the end of year.
Historically low interest rates on the money market have lowered the attractiveness of investing in cash funds that invest assets in short-term debt instruments. Although the yields on long-term debt securities were downsized, the yield difference with respect to investments in money market instruments was sufficient to encourage investment in bond funds. Share prices on the local market fell in the last quarter of last year, which further reduced the investor's interest in equity funds.

Building societies are credit institutions specialized in the offering special purpose savings and housing loans. These are long-term savings with state subsidies and a fixed-rate housing loan. Customer interest in housing savings and loans depends on the alternative market offer and state subsidies for housing savings. State subsidies are calculated on the basis of realized market interest rates. Due to the fall in interest rates, the level of state subsidies decreases. For 2015, they accounted for 4.9 percent of the savings realized in the accounting year, for 2016 were down to 4.1 percent, and for 2017 to 3.3 percent. For 2018 were additionally decreased to 1.8 percent, and for 2019 are prescribed to 1.2 percent of savings. In the housing loan market, the attractiveness of the banks offers for housing loans with a fixed interest rate and the possibility of using state subsidy programs. Consequently, the attractiveness of loans in building societies was reduced, which resulted in a 2% drop in the Raiffeisen Building Society's assets.

Raiffeisen group financial highlights for the period from 2014 to 2018

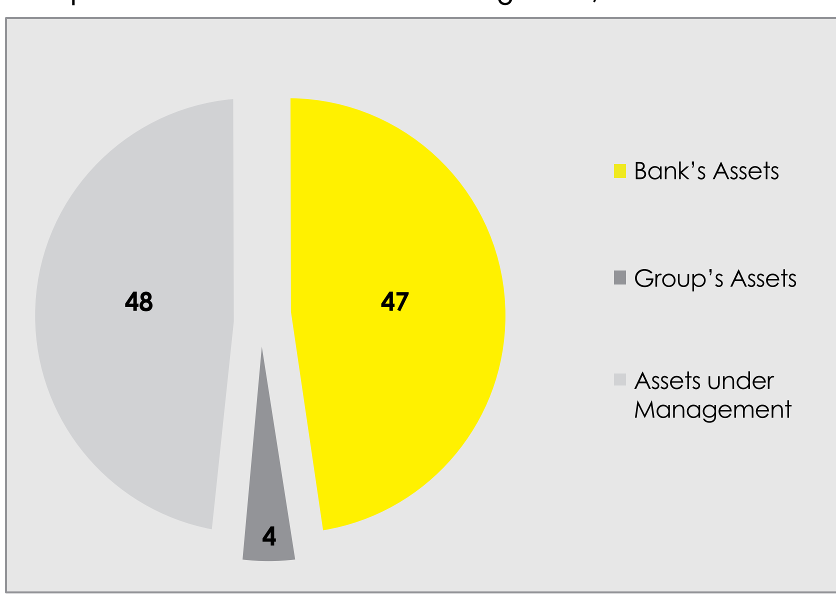
Group HRK millions	2018	2017	2016	2015	2014
From Balance sheet at 31 December					
Total assets	35,165	34,178	35,364	35,058	35,887
Shareholders' equity	4,506	4,685	4,890	4,394	5,052
Customer accounts	26,233	23,780	24,144	23,640	23,527
Loans to customers	17,463	17,745	18,504	19,626	21,780
From Income statement for the year ended 31 December					
Operating income	1,804	1,874	2,062	1,990	2,158
Operating expenses	1,233	1,212	1,877	1,231	1,286
Profit before tax	328	290	695	(182)	465
Net profit for the year	283	188	535	(150)	364
Ratios	%	%	%	%	%
Return on average shareholders' funds	6.04	3.84	12.17	(3.35)	6.94
Return on average assets	0.82	0.54	1.52	(0.42)	1.01
Capital adequacy ratio (in accordance with the Croatian National Bank methodology)	19.32	20.48	20.19	19.30	18.87
	HRK	**HRK**	**HRK**	**HRK**	**HRK**
Earnings per share	78	52	147	(43)	100

In 2018, total Group liabilities increased by HRK 1,166 million. The share of customer deposits in the Group's total liabilities is 86 percent. The share of secondary funding sources decreased to 11 percent of total liabilities. Apart from the Bank, the majority of secondary sources of funding relates to borrowings used by Raiffeisen leasing and in a smaller proportion by Raiffeisen Consulting. At the end of the year borrowings amounted to HRK 1,914 million, while deposits with banks amounted to HRK 589 million. Total customer deposits amounted to HRK 26,233 million. The share of individuals deposits in the total liabilities is 48 percent. At the end of 2018, the capital of the Group amounts to HRK 4,506 million, with the capital adequacy ratio of 19 percent.

The Group ended 2018 with a profit for after tax of HRK 283 million. Positive results were achieved by the Bank and all other Group members except Raiffeisen Factoring and Raiffeisen Building Society. Within the Group, Raiffeisen Pension Company achieved a significant profit. A solid contribution to the Group’s business result was achieved by Raiffeisen Leasing. Insignificant was contribution from other companies in the Group: Raiffeisen Pension Insurance Company, Raiffeisen Invest and Raiffeisen Consulting.

Net interest income of the Group amounted to HRK 873 million, which is 4 percent less than last year. At the Group level, the negative impact on net interest income was due to the decrease in loans and other assets for which interest income was accounted for. Net fee and commission income amounted to HRK 463 million; on annual basis decreased by one percent. Fee income is the basic income of the Group's members who manage the assets of pension and investment funds. The largest non-bank segment revenues are realized from compulsory pension funds management. Increase in pension funds' assets is based on realized contributions and yields that expand the base for calculating fund manager remuneration. The level of management compensation for mandatory pension funds is determined by the regulator. In 2018, management fee was 0.363%, while in the previous year it was 0.390%. Reducing the rate for the compensation calculation neutralizes the positive contribution of the increased base on the company's revenue.

Group - assets and assets under management, in %



Other non-interest income amounted to HRK 468 million, down 5 percent compared to the previous period. On trading income, profit amounted to HRK 147 million and on other operating income HRK 321 million. Other income includes operating lease rental income of HRK 56 million and gross premiums written for pension insurance amounting to HRK 198 million.

Group realized the total revenues of HRK 1,804 million. On annual basis the revenues decreased by HRK 70 million. Operating expenses amounted to HRK 1,233 million, of which the administrative expenses of technical provisions for pension insurance amounted to HRK 162 million, and an additional HRK 52 million for the cost increase. Operating expenses were slightly reduced compared to the previous year. In relation to the gross incomes of the Group the operating expenses account for 68 percent.

The Group realized the impairment loss of HRK 243 million, which is by 35 percent less on an annual basis. The contribution of other members of the local group to the loss on assets was insignificant. The Group achieved a positive result of business in the amount of HRK 283 million. On annual basis the net result increases by 50 percent.

Financial instruments and related risks

The Bank and the local Group invest assets into financial instruments, thus exposing themselves to risks. Risk management is the responsibility of the Bank’s Management Board, while its operational implementation is the task of the organizational units in charge of risk management and risk control. As at end of 2018, the Banks’s assets were invested in different financial instruments, with customer loans and debt securities having a major share.

The most significant types of financial risks to which the Bank and the local Group are exposed are credit risk, liquidity risk market risk and operational risk. Market risk includes exchange rate risk, interest rate risk and equities price risk. At the Group level, there is a comprehensive risk management system of policy and procedure implementation, setting of limits for risk levels that are acceptable to the Group. The limits are set according to the amount of regulatory capital and are applied to all risk types. The Group has also developed methods and models of operational risk management.

Credit risk

Credit risk is the risk that counterparty in a transaction made by the Group may cease to pay its liabilities or contingent liabilities.

On the reporting date, the total credit risk exposure of the Bank to all customer segments was HRK 31,420 million in assets and HRK 7,613 million in off-balance items. At the Group level, the exposure to credit risk was HRK 33,866 million in assets and HRK 7,802 million in off-balance items.

Positive trends realized in the economy were reflected in the decline in non-performing loans. At the end of 2018, the Bank's total non-performing loans accounted for HRK 1,524 million as of HRK 39,033 million of gross exposure. Loan loss provisions of HRK 980 million cover 64 per cent of non-performing loans. At the Group level, total non-performing loans amount at HRK 1,604 million as of HRK 41,668 million of gross exposure. Loan loss provisions of HRK 1,015 million cover 63 per cent of non-performing loans.

Liquidity risk

Maturity transformation is a function conventionally performed by banks in the financial market. It results in continued reporting discrepancies between the inflows and outflows recorded by banks achieve in specific time periods (liquidity gap). Liquidity discrepancies (gaps) create exposure to liquidity risk. They occur in the form of a risk that the Bank will not be able to finance (refinance) its positions under acceptable conditions at appropriate maturities, or as a risk that it will not be able to effectively cash in on its assets within the appropriate period of time.

The Bank and the local Group harmonize their business activities with the legal provisions that regulate liquidity risk, as well as Group and internal documents for the liquidity reserve maintenance. At the end of 2018, the liquidity risk exposure of Bank and local Group assets was insignificant.

Market risk

Market risk is the risk of a negative impact of changes in market parameters, such as interest rates or foreign currency exchange rates, on the Group's income or on the value of its positions in financial instruments. The assessment of exposure to market risk is based on changes in the foreign currency exchange rates, interest rates, credit spreads, equities and commodities prices, as well as other market parameters.

Interest rate risk

Financial assets of the Bank and the local Group are mainly interest-bearing, as is the case with most financial liabilities. Assets and liabilities mature or their interest rates change in different periods and in different amounts. To a certain extent, Bank and Group profit is vulnerable to the interest rate developments. The profit is also affected by the currency structure of assets, liabilities, and capital and reserves. The Bank and the local Group hold a significant share of interest-bearing assets and liabilities in foreign currencies.

Exchange rate risk

A portion of the assets of the Bank and the local Group is denominated in foreign currencies, predominantly in euros. The exposure to the risk of exchange rate fluctuations characterizes the risk of losses incurred in open foreign currency positions. To protect themselves from the currency risk, the Bank and the local Group use derivative financial instruments.
The exposure to the risk of exchange rate volatility stems from the transactions involving the loans denominated in foreign currencies, deposits denominated in foreign currencies, and investment and market activities. That exposure is monitored on a daily basis, in line with the internal limits set at the level of individual currency and in the total amount of maximum open foreign currency position allowed. The exposure of the Bank and the local Group to exchange rate risk on the reporting date was insignificant.

Equities price risk

Equities price risk is the risk of equities price fluctuations, which will affect the fair value of equities investments and other instruments, whose value is derived from equities investments. The primary exposure to price risk stems from the equities that are stated at fair value in the income statement. The exposure of the Bank and the local Group to equities price risk on the reporting date was insignificant.

Responsibilities of the Management

Based on the Croatian Accounting Law, the Management Board of Raiffeisenbank Austria d.d. Zagreb (hereinafter referred to as "the Bank") shall ensure that the financial statements for each financial year are prepared in accordance with the applicable accounting framework, giving a true and fair view of the bank's balance sheet, business results and cash flows for 2018.

After appropriate controls have been carried out, the Management Board expects the Bank to have adequate resources available for the foreseeable future, and therefore continues to adopt the principle of timeless business continuity when preparing the financial statements.

Responsibilities of the Management Board in the preparation of the financial statements include:

- selection and consistent application of appropriate accounting policies;
- giving justified and prudent judgments and assessments;
- acting in accordance with the applicable accounting standards, with the disclosure and explanation of all material deviations in the financial statements and
- the preparation of financial statements under the assumption of a timeless business, unless the assumption that the Bank will continue the business is inappropriate.

The Management Board of the Bank is responsible for conducting the appropriate accounting records, which at any time, with justified accuracy, outline the Bank's financial position as well as the consolidated position of the Group. The Management Board is responsible for the financial statements in accordance with the Croatian Accounting Law. In addition, the Management Board is responsible for taking the right steps to prevent and detect fraud and other irregularities.

The Management Board is also responsible for preparing and content of management reports in accordance with the Croatian Accounting Law. The management report was approved for issue by the Management Board and was signed in accordance with this.

Non-financial information

The Bank implemented the exemption allowed under the Accounting Act Article 21a paragraph 7, and does not declare a separate non-financial statement.
Non-financial information regulated under the EU Directive 2014/95 that include the Bank and members of the local group were published by RBI on its web site at the link: (https://www.rbinternational.com/eBusiness/01_template1/829189266947841370-829188968716049154_923778918747875269_923779208926603950-923779208926603950-NA-2-EN.html).

Signed on behalf of the Raiffeisenbank Austria d.d.

Michael Georg Müller
President of the Management Board

Daniel Mitteregger
Member of the Management Board

Marko Jurjević
Member of the Management Board

Liana Keserić
Member of the Management Board

Zoran Košćak
Member of the Management Board

Ivan Žižić
Member of the Management Board

Višnja Božinović
Member of the Management Board

RBI at a glance

Raiffeisen Bank International at a glance

RBI regards Austria, where it is a leading corporate and investment bank, as well as Central and Eastern Europe (CEE) as its home market. 13 markets of the region are covered by subsidiary banks. Additionally, the RBI Group comprises numerous other financial service providers, for instance in leasing, asset management or M&A.

Around 47,000 employees service 16.1 million customers through more than 2,100 business outlets, the by far largest part thereof in CEE. RBI's shares are listed on the Vienna Stock Exchange.

At year-end 2018, RBI's total assets stood at 140 billion. The Austrian Regional Raiffeisen Banks own around 58.8 per cent of the shares, the remainder is in free float.

Within the Austrian Raiffeisen Banking Group, RBI is the central institute of the Regional Raiffeisen Banks and other affiliated credit institutions.

Financial Statements

Responsibilities of the Management and Supervisory Board for the preparation and approval of the annual report

The Management Board of the Bank is required to prepare separate and consolidated financial statements for each financial year which give a true and fair view of the financial position of the Bank and Group and of the results of their operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Bank and the Group and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; making judgements and estimates that are reasonable and prudent; and preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Bank and the Group will continue in business.

The Management Board is responsible for the submission to the Supervisory Board of its annual financial statements on the Bank and the Group for acceptance. If the Supervisory Board approves the annual financial statements, they are given to General assembly for acceptance.

The Management Board is also responsible for preparation and presentation of supplementary schedules for the CNB prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Banks (Official Gazette 42/18).

The separate and consolidated financial statements set out on pages 45 to 177 as well as supplementary schedules for the Croatian National Bank on pages 178 to 182 and reconciliation of the statutory financial statements with the supplementary schedules for the Croatian National Bank, set out on pages 183 to 188, were authorised by the Management Board on 18 April 2019 for issue to the Supervisory Board and are signed below to signify this.

The Management Board is also responsible for the preparation and content management report as required by the Croatian Accounting Law, and for other information that include Macroeconomic environment, on pages 10 to 13 and the Management report presented on pages 18 to 29. Other information was approved by the Management Board on 18 April 2019 and are signed below.

Signed on behalf of the Raiffeisenbank Austria d.d.

Michael Georg Müller
President of the Management Board

Daniel Mitteregger
Member of the Management Board

Marko Jurjević
Member of the Management Board

Liana Keserić
Member of the Management Board

Zoran Košćak
Member of the Management Board

Ivan Žižić
Member of the Management Board

Višnja Božinović
Member of the Management Board

Independent auditors’ report to the shareholders of Raiffeisenbank Austria d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the separate financial statements of Raiffeisenbank Austria d.d. (“the Bank“) and the consolidated financial statements of the Bank and its subsidiaries (“the Group”), which comprise the separate and consolidated statements of financial position of the Bank and the Group as at 31 December 2018, and their respective separate and consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information (“the financial statements“).

In our opinion, the accompanying financial statements give a true and fair view of the unconsolidated financial position of the Bank and the consolidated financial position of the Group as at 31 December 2018 and of their respective unconsolidated and consolidated financial performance and their cash flows for the year then ended in accordance with statutory accounting requirements for banks in Croatia.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditors' Report to the shareholders of Raiffeisenbank Austria d.d. (continued)

Report on the Audit of the Financial Statements (continued)

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.

Impairment of loans and advances to customers

As at 31 December 2018, in the consolidated financial statements gross loans and advances to customers amount to HRK 18,655 million, related impairment allowance amounts to HRK 1,192 million and impairment loss recognised in profit or loss amounts to HRK 206 million (31 December 2017: gross loans and advances: HRK 19,766 million, impairment allowance: HRK 2,021 million, impairment loss recognised in profit or loss: HRK 369 million). As at 31 December 2018, in the separate financial statements gross loans and advances to customers amount to HRK 17,253 million, impairment allowance amounts to HRK 1,154 million and impairment loss recognised in profit or loss amounts to HRK 198 million (31 December 2017: gross loans and advances: HRK 17,914 million, impairment allowance: HRK 1,461 million, impairment loss recognised in profit or loss: HRK 139 million).

Refer to pages 57 to 61 (Basis of preparation), pages 63 to 80 (Accounting policies), pages 80 to 84 (Accounting estimates and judgements in applying accounting policies), pages 107 to 109 (note 12 Loans and advances to customers), and pages 145 to 153 (credit risk section of the note 48 Financial risk management policies)

Key audit matter

Impairment allowances represent the Management Board's best estimate of the credit losses incurred within the loans and advances portfolio at the reporting date. We focused on this area as the determination of impairment allowances requires a significant amount of judgment from the Management Board over both the timing of recognition and the amounts of any such impairment.

How our audit addressed the matter

Our audit procedures in this area included, among others:
- Inspecting the Bank's and the Group's new expected credit loss (ECL) impairment provisioning methodology and assessing its compliance with the relevant requirements of the CNB provisioning regulations;
- Making relevant inquiries of the Bank's and the Group's risk management and information technology (IT) personnel to obtain an understanding of the provisioning process, IT applications used therein, as well as key data sources and assumptions for data used in the ECL model. Also, assessing and testing of IT control environment for data security and access, assisted by our own IT specialists;

Independent Auditors' Report to the shareholders of Raiffeisenbank Austria d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Additionally, as at 1 January 2018, the Bank and the Group applied the new Croatian National Bank (the CNB) provisioning regulations, which partially incorporate the requirements of new financial instruments standard, IFRS 9 Financial Instruments (dualmeasurement approach, under which the impairment allowance is measured as either 12-months expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition), whose impairment requirements are based on the expected credit loss model rather than the incurred loss model, as previously used. New CNB provisioning regulations also prescribe minimum provisioning percentages in certain cases as well as the minimum haircuts to be applied on the estimated value of collateral and minimum period of realisation of collateral.

Following the initial application of the new CNB provisioning regulations, impairment allowances for performing corporate exposures (Stage 1 and Stage 2 in the provisioning regulations hierarchy) are determined with respect to the minimum CNB provisioning percentages given that the collective impairment allowance calculated using IFRS 9 parameters is lower than the prescribed CNB minimum. Impairment allowance for performing retail exposures (Stage 1 and Stage 2 in the provisioning regulations hierarchy) and nonperforming retail exposures (Stage 3 in the provisioning regulations hierarchy) (together "collective impairment allowance") are determined by modelling techniques. Historical experience, identification of exposures with a significant deterioration in credit quality and defaulted exposures, forward-looking information and management judgment are incorporated into the model assumptions. The Bank is continuously recalibrating the model parameters which also requires our increased attention in the audit. Due care is taken to ensure compliance with the minimum CNB provisioning requirements.

How our audit addressed the matter (continued)

• Testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans and advances, including, but not limited to, the controls relating to the identification of loss events and default, appropriateness of classification of exposures between performing and non-performing and their segmentation into homogenous groups, calculation of days past due, collateral valuations, adherence to the CNB minimum provisioning requirements, and calculation of the impairment allowances;

With respect to the impairment accounting under the new CNB provisioning regulations:

• Understanding the overall transition process activities and controls, including the process and controls over determining the impact as well as the underlying process activities that generated the related disclosures;

• Assessing whether the definition of default and the new provisioning regulation's staging criteria were consistently applied;

• Evaluating the overall modelling approach of calculation of ECL, including the calculation of main risk parameters and macroeconomic factors (probability of default (PD), loss given default (LGD), best estimate of the expected loss (BEEL) and exposure at default (EAD));

• Considering various minimum CNB provisioning requirements.

• Performing an analysis of the ECL-based impairment allowances as at the new regulation's initial application date, to those calculated at that same date in accordance with the previous CNB regulations, and assessing their reasonableness based on inquiries of the credit risk management personnel.

For collective impairment allowance:

• Obtaining an understanding of the key internal rating models for loans and advances, and assessing the reasonableness of the underlying assumptions, and the sufficiency of the data used by the management;

• Testing the underlying impairment models, assessed as significant, including model approval and validation processes;

• Obtaining the relevant forward looking information and macroeconomic forecasts used in the Bank's ECL assessment. Independently assessing the information by means of corroborating inquiries of the Management Board;

• Recalculating secured retail PD model results, with the use of our own financial risk management specialist;

• Considering various minimum CNB provisioning requirements;

Independent Auditors' Report to the shareholders of Raiffeisenbank Austria d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

For non-performing corporate exposures, the impairment assessment is based on the knowledge of each individual borrower and often on estimation of the fair value of the related collateral. Related impairment allowances are determined on an individual basis by means of a discounted cash flows analysis. The process involves a high level of subjectivity and reliance on a number of significant assumptions, including those in respect of the probable sale proceeds from collateral, as well as specific guidance of the CNB regarding minimum haircuts to be applied on the estimated value of collateral and minimum period of realisation of collateral.

For the above reasons, impairment of loans and advances to customers was considered by us to be a significant risk in our audit, which required our increased attention. Accordingly, we considered the area to be our key audit matter.

How our audit addressed the matter (continued)

• Challenging BEEL, LGD and PD parameters, assessed as significant, by performing back-testing, to the extent possible, of historical default and by reference to historical realized losses on defaults;
• For a sample of exposures, assessing the appropriateness of the staging;
• For a sample of exposures tested collectively, assessing the application of the measurement models applied and checking that the impairment rates applied complied with those provided for in such models;
• Considering various minimum CNB provisioning requirements.

For impairment allowances that are calculated individually:
• Selecting a sample of individual exposures, with focus on those with the greatest potential impact on the financial statements due to their magnitude and risk characteristics, as well as lower value items, which we independently assessed as high-risk, such as watchlisted, restructured or rescheduled exposures, loans to clients operating in higher risk industries, non-performing exposures with low provision coverage and unsecured exposures;
• For the sample selected, critically assessing, by reference to the underlying documentation (loan files) and through discussion with the loan officers and credit risk management personnel, the existence of triggers for classification to Stage 3;
• For those loans where triggers for classification in Stage 3 were identified, challenging key assumptions applied in the Bank's estimates of future cash flows used in the impairment calculation, such as discount rates and collateral values;
• Assessing whether the definition of purchased or originated credit impaired assets has been applied consistently;
• Considering various minimum CNB provisioning requirements.

Critically assessing the overall reasonableness of the impairment allowances, including both the share of the gross non-performing exposure in total gross exposure and the non-performing loans provision coverage;
Evaluating the accuracy and completeness of the financial statement disclosures relating to the adoption of the new provisioning regulations.

Our audit procedures in this area included, among others:
• Assessing the Bank's identification of impairment indicators, based on our experience with the particular subsidiary, industry in which they operate as well as the

Independent Auditors' Report to the shareholders of Raiffeisenbank Austria d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Impairment of investments in subsidiaries in the separate financial statements

As at 31 December 2018, investments in subsidiaries in the separate financial statements amount to HRK 423 million (cost HRK 729 million and impairment allowance HRK 306 million) (31 December 2017: HRK 395 million; cost HRK 663 million and impairment allowance HRK 268 million); related impairment loss recognised in 2018 amounts to HRK 39 million (2017: HRK 268 million).

Refer to page 78 (Significant accounting policies), page 84 (Significant accounting estimates and judgements) and page 111 to 112 (note 14 Investments in subsidiaries).

Key Audit Matters (continued)

The Bank has investments in subsidiaries operating in various industries (leasing, factoring, pension fund management, investment fund management, real estate management and pension insurance). In the Bank's separate financial statements investments in these subsidiaries are stated at cost, less any related impairment. On an annual basis, the Bank performs an assessment of the existence of impairment indictors for the individual subsidiaries. For those subsidiaries, for which impairment indicators were identified, the Bank performs an assessment of the investment's recoverable amount, by reference to its fair value determined via a range of valuation techniques, such as, but not limited to, discounted cash flows, discounted dividend model and use of multipliers.

The determination of the investments' recoverable amounts requires the Management Board to apply significant judgement, and to use complex and subjective assumptions. Due to the above factors, as well as the fact that significant impairment losses were recognised during the year and in the comparative period, as discussed in Note 14 to the separate financial statements, we consider this area to be a key audit matter.

How our audit addressed the matter (continued)

Bank's decision making process, considering factors such as, but not limited to: unfavourable developments in the industry, changing laws and regulations, declining financial performance, capital requirements, unsustainable level of debt, financial difficulties of key customers, changing business models and net carrying amount of the Bank's investment in excess of the Bank's share in net assets.
For the subsidiaries for which impairment indicators were identified:
• Assessing the appropriateness of valuation methods applied by the Bank against the requirements of the relevant financial reporting standards and current market practice;
• Assessing experience, objectivity and competence of the Bank's internal valuation officers;
• Assisted by our own valuation specialists, challenging key assumptions used in the Bank's estimates of recoverable amounts, such as cash flows (including, but not limited to the inspection of historical financial performance, quality of budgeting process, past and expected future market developments etc.) and discount rates (including, but not limited to assessing whether the cost of debt and cost of equity used are stated within the reasonable range, given the specific industry, country risk, financial position of company, whether the pre-tax rate was applied to pre-tax cash flows (or post-tax rate to post tax cash flows), and making corroborating inquiries of the Bank's Management Board and its valuation officers;
• Performing, where considered appropriate, alternative valuations to challenge the management valuations of individual subsidiaries;
For the subsidiaries which are in the process of sale, discussing the process with the Bank's Management Board and inspecting the offers received to date to evaluate whether there are any indications that the carrying amounts of these subsidiaries in the Bank's separate financial statements may be in excess of their recoverable amount; Assessing the accuracy and completeness of the related disclosures included in note 14 of the separate financial statements.

Independent Auditors' Report to the shareholders of Raiffeisenbank Austria d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Other Information

Management is responsible for the other information. The other information comprises the Management Report and Macroeconomic environment included in the Annual Report of the Bank and the Group, but does not include the financial statements and our auditors' report thereon.
Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.
With respect to the Management Report, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether the Management Report has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act.
Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures above, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report has been prepared, in all material respects, in accordance with the requirements of Articles 21 and 24 of the Accounting Act;

In addition, in light of the knowledge and understanding of the Bank and the Group and their environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report and Macroeconomic environment. We have nothing to report in this respect.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with statutory accounting requirements for banks in Croatia, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

Independent Auditors’ Report to the shareholders of Raiffeisenbank Austria d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ 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 International Standards on Auditing 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 controls.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank’s and the Group’s internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank’s and the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the 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 auditors’ 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 financial statements, including the disclosures, and whether the 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 entitie or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditors' Report to the shareholders of Raiffeisenbank Austria d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements)

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 controls that we identify during our audit.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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

Pursuant to the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Credit Institutions, dated 9 May 2018 (Official Gazette 42/18),the Management Board of the Bank has prepared the schedules ("the Schedules"), which comprise an alternative presentation of the consolidated and separate statement of financial position as of 31 December 2018, and of the consolidated and separate income statement, statement of changes in equity and statement of cash flows for the year then ended, and a reconciliation ("the Reconciliation") of the Schedules with the consolidated and separate financial statements. The schedules are set out on pages 178 to 182, and the Reconciliation is set out on pages 183 to 188.
The Management Board of the Bank is responsible for the Schedules and the Reconciliation. The financial information in the Schedules is derived from the financial statements of the Group and the Bank set out on pages 45 to 177 on which we have expressed an opinion as set out above.

We were appointed by those charged with governance on 17 May 2018 to audit the financial statements of the Bank and the Group for the year ended 31 December 2018. Our total uninterrupted period of engagement is 4 years, covering the periods ending 31 December 2015 to 31 December 2018.
We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Bank dated 15 April 2019;
- We have not provided non-audit services, hence any prohibited non-audit services (NASs) referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit;

KPMG Croatia d.o.o. za reviziju
Croatian certified auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Hrvatska

Zagreb, 18. travnja 2019. godine

Goran Horvat
Director, Croatian Certified Auditor

This version of Auditors' 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 the Auditors' report takes precedence over translation.

Consolidated statement of financial position

HRK millions	Notes	Group 2018	Group 2017
Assets			
Cash and current accounts with banks	8	5,306	4,708
Obligatory reserve with the Croatian National Bank	9	1,909	1,739
Financial assets at fair value through profit or loss	10	1,533	951
Placements with and loans to other banks	11	1,532	894
Loans from and advances to customers	12	17,463	17,745
Investment securities	13	5,830	6,216
Property, plant ,equipment and property investments	15	987	1,309
Intangible assets	16	256	239
Deferred tax asset	17	99	86
Current tax asset		22	–
Other assets	18	228	291
Total assets		**35,165**	**34,178**

The accounting policies and other notes on pages 57 to 177 form an integral part of these financial statements.

Consolidated statement of financial position (continued)
As at 31 December

HRK millions	Notes	Group 2018	Group 2017
Liabilities			
Financial liabilities at fair value through profit or loss	19	40	59
Deposits from banks	20	589	1,056
Deposits from companies and other similar entities	21	11,384	9,549
Deposits from individuals	22	14,849	14,231
Borrowings	23	1,914	2,572
Provisions for liabilities and charges	24	185	173
Current tax liability		–	70
Other liabilities	25	876	951
Subordinated liabilities	26	822	832
Total liabilities		**30,659**	**29,493**
Equity			
Share capital	36	3,621	3,621
Share premium		12	12
Capital reserve		1	1
Legal reserve		181	181
Fair value reserve		72	48
Retained earnings		619	822
Total equity attributable to owners of the parent		**4,506**	**4,685**
Total liabilities and equity		**35,165**	**34,178**

The accounting policies and other notes on pages 57 to 177 form an integral part of these financial statements.

Consolidated statement of comprehensive income
For the year ended 31 December

HRK millions	Notes	Group 2018	Group 2017
Interest income calculated using the effective interest method	27	957	1,057
Other interest income	27	81	82
Interest expense	28	(165)	(226)
Net interest income		**873**	**913**
Fee and commission income	29	853	794
Fee and commission expense	30	(390)	(325)
Net fee and commission income		**463**	**469**
Net gain / (loss) from financial instruments at fair value	31	29	(56)
Net gain on trading and foreign exchange differences from translation of monetary assets and liabilities	31	118	248
Other operating income	32	321	300
Trading and other income		**468**	**492**
Operating income		**1,804**	**1,874**
Operating expenses	33	(1,233)	(1,212)
Impairment losses	34	(221)	(386)
(Increase) / release of provisions for liabilities and charges	24	(22)	14
Profit before tax		**328**	**290**
Income tax expense	35	(45)	(102)
Profit for the year		**283**	**188**
Profit for the year		**283**	**188**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Change in fair value of equity financial assets at fair value through other comprehensive income, net of tax and realised amounts		2	–
Items that are or may be reclassified to profit or loss			
Change in fair value of debt financial assets at fair value through other comprehensive income, net of tax and realised amounts		(17)	–
Change in fair value of financial assets available for sale, net of tax and realised amounts		–	(10)
Other comprehensive loss for the year, net of tax		**(15)**	**(10)**
Total comprehensive income for the year		**268**	**178**
Attributable to: – Owners of the parent		283	188
Earnings per share attributable to the equity holders of the parent	**40**	**77.99**	**51.80**

The accounting policies and other notes on pages 57 to 177 form an integral part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December For the year ended 31 December

HRK millions	Share capital	Share premium	Capital reserves	Legal reserve	Fair value reserve	Retained earnings	Total attributable to equity holders of the parent	Non-controlling interest	Total
At 1 January 2017	**3,621**	**12**	**1**	**181**	**58**	**1,017**	**4,890**	**–**	**4,890**
Other comprehensive income	–	–	–	–	(10)	–	(10)	–	(10)
Other movements	–	–	–	–	–	2	2	–	2
Profit for the year	–	–	–	–	–	188	188	–	188
Dividend paid	–	–	–	–	–	(385)	(385)	–	(385)
At 31 December 2017	**3,621**	**12**	**1**	**181**	**48**	**822**	**4,685**	**–**	**4,685**
Effect of the Decision on classification at 1 January 2018	–	–	–	–	39	(90)	(51)	–	(51)
At 1 January 2018	**3,621**	**12**	**1**	**181**	**87**	**732**	**4,634**	**–**	**4,634**
Other comprehensive income	–	–	–	–	(15)	–	(15)	–	(15)
Profit for the year	–	–	–	–	–	283	283	–	283
Dividend paid	–	–	–	–	–	(396)	(396)	–	(396)
At 31 December 2018	**3,621**	**12**	**1**	**181**	**72**	**619**	**4,506**	**–**	**4,506**

The accounting policies and other notes on pages 57 to 177 form an integral part of these financial statements.

Consolidated statement of cash flows
For the year ended 31 December

HRK millions	Notes	Group 2018	Group 2017
Cash flows from operating activities			
Profit before tax		328	290
Adjustments for:			
– Amortization and depreciation	33	134	147
– Foreign exchange differences	31	6	(141)
– Realised gains on financial assets at fair value through profit or loss	31	(7)	(25)
– Impairment losses (excluding cash and cash equivalents) and provisions for liabilities and charges	24,34	239	369
– Gain on sale of assets under operating lease	32	(13)	–
– Net interest income	27,28	(873)	(913)
Changes in operating assets and liabilities			
Net (increase)/decrease in financial assets at fair value through profit or loss		(573)	1,526
Net decrease in placements with banks, with original maturity more than three months		68	21
Net increase in obligatory reserve with the Croatian National Bank		(167)	(62)
Net (increase)/decrease in loans from and advances to customers		(100)	471
Net decrease/(increase) in other assets		56	(1)
Net decrease in financial liabilities through profit or loss		(19)	(44)
Net (decrease)/increase in deposits from banks		(467)	627
Net increase/(decrease) in deposits from companies and other similar entities		1,856	(276)
Net increase in deposits from individuals		691	248
Net (decrease)/increase in other liabilities		(76)	176
Interest received (excluding investment securities)		999	1,062
Interest paid		(204)	(219)
Net cash from operating activities before tax		**1,878**	**3,256**
Income tax paid		(145)	(28)
Net cash from operating activities		**1,733**	**3,228**

Consolidated statement of cash flows (continued)
For the year ended 31 December

HRK millions	Notes	Group 2018	Group 2017
Cash flows from investing activities			
Interest received from investment securities		66	165
Net purchase /(sale) of investment securities		344	(934)
Purchase of property, plant and equipment and intangible assets		(151)	(161)
Proceeds from disposal of property, plant and equipment and intangible assets		335	41
Net cash from investing activities		**594**	**(889)**
Cash flows from financing activities			
Receipts from borrowings	23	8,680	3,457
Repayment of borrowings	23	(9,305)	(4,846)
Dividend paid	38	(396)	(385)
Net cash from financing activities		**(1,021)**	**(1,774)**
Effects of foreign exchange differences on cash and cash equivalents		3	(4)
Net increase in cash and cash equivalents		**1,309**	**561**
Cash and cash equivalents at the beginning of the year		**5,529**	**4,968**
Cash and cash equivalents at the end of the year	41	**6,838**	**5,529**

The accounting policies and other notes on pages 57 to 177 form an integral part of these financial statements.

Separate statement of financial position
As at 31 December

HRK millions	Notes	Bank 2018	Bank 2017
Assets			
Cash and current accounts with banks	8	5,298	4,707
Obligatory reserve with the Croatian National Bank	9	1,909	1,739
Financial assets at fair value through profit or loss	10	1,019	573
Placements with and loans to other banks	11	1,543	905
Loans from and advances to customers	12	16,099	16,453
Investment securities	13	5,309	5,617
Investments in subsidiaries	14	423	395
Property, plant, equipment and property investments	15	507	492
Intangible assets	16	221	204
Deferred tax asset	17	95	84
Current tax asset		29	–
Other assets	18	177	210
Total assets		**32,629**	**31,379**

The accounting policies and other notes on pages 57 to 177 form an integral part of these financial statements.

Separate statement of financial position (continued)
As at 31 December

HRK millions	Notes	Bank 2018	Bank 2017
Liabilities			
Financial liabilities at fair value through profit or loss	19	40	61
Deposits from banks	20	673	1,093
Deposits from companies and other similar entities	21	11,597	9,817
Deposits from individuals	22	13,783	13,203
Borrowings	23	1,004	1,237
Provisions for liabilities and charges	24	169	162
Current tax liability		–	79
Other liabilities	25	315	437
Subordinated liabilities	26	822	832
Total liabilities		**28,403**	**26,921**
Equity			
Share capital	36	3,621	3,621
Share premium		12	12
Capital reserve		1	1
Legal reserve		173	173
Fair value reserve		64	33
Retained earnings		355	618
Total equity		**4,226**	**4,458**
Total liabilities and equity		**32,629**	**31,379**

The accounting policies and other notes on pages 57 to 177 form an integral part of these financial statements.

Separate statement of comprehensive income
For the year ended 31 December

HRK millions	Notes	Bank 2018	Bank 2017
Interest income calculated using the effective interest method	27	869	961
Other interest income	27	65	65
Interest expense	28	(124)	(170)
Net interest income		**810**	**856**
Fee and commission income	29	685	629
Fee and commission expense	30	(386)	(320)
Net fee and commission income		**299**	**309**
Net gain/(loss) from financial instruments at fair value	31	37	(75)
Net gain on trading and foreign exchange differences from translation of monetary assets and liabilities	31	110	248
Other operating income	32	97	101
Trading and other income		**244**	**274**
Operating income		**1,353**	**1,439**
Operating expenses	33	(884)	(1,105)
(Increase)/release of impairment losses	34	(213)	127
(Increase)/release of provisions for liabilities and charges	24	(17)	14
Profit before tax		**239**	**475**
Income tax expense	35	(20)	(79)
Profit for the year		**219**	**396**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Change in fair value of equity financial assets at fair value through other comprehensive income, net of tax and realised amounts		2	–
Items that are or may be reclassified to profit or loss			
Change in fair value of debt financial assets at fair value through other comprehensive income, net of tax and realised amounts		(15)	–
Change in fair value of financial assets available for sale, net of tax and realised amounts		–	(3)
Other comprehensive loss for the year, net of tax		**(13)**	**(3)**
Total comprehensive income for the year		**206**	**393**
Earnings per share attributable to the equity holders of the parent	40	60.34	109.24

The accounting policies and other notes on pages 57 to 177 form an integral part of these financial statements.

Separate statement of changes in equity
For the year ended 31 December

HRK millions	Share capital	Share premium	Capital reserve	Legal reserve	Fair value reserve	Retained earnings	Total
At 1 January 2017	**3,621**	**12**	**1**	**173**	**36**	**607**	**4,450**
Other comprehensive income	–	–	–	–	(3)	–	(3)
Profit for the year	–	–	–	–	–	396	396
Dividend paid	–	–	–	–	–	(385)	(385)
At 31 December 2017	**3,621**	**12**	**1**	**173**	**33**	**618**	**4,458**
Effect of the Decision on classification at 1 January 2018	–	–	–	–	44	(86)	(42)
At 1 January 2018	**3,621**	**12**	**1**	**173**	**77**	**532**	**4,416**
Other comprehensive income	–	–	–	–	(13)	–	(13)
Profit for the year	–	–	–	–	–	219	219
Dividend paid	–	–	–	–	–	(396)	(396)
At 31 December 2018	**3,621**	**12**	**1**	**173**	**64**	**355**	**4,226**

The accounting policies and other notes on pages 57 to 177 form an integral part of these financial statements.

Separate statement of cash flows
For the year ended 31 December

HRK millions	Notes	Bank 2018	Bank 2017
Cash flows from operating activities			
Profit before tax		239	475
Adjustments for:			
– Amortization and depreciation	33	81	74
– Foreign exchange differences	31	14	(139)
– Impairment losses (excluding cash and cash equivalents) and provisions for liabilities and charges	24,34	227	(144)
– Realised gains on financial assets at fair value through profit or loss	31	(7)	(14)
– Impairment loss on investment in subsidiaries		39	268
– Net interest income	27,28	(810)	(856)
– Dividend income from subsidiaries	32	(79)	(72)
Changes in operating assets and liabilities			
Net (increase)/decrease in financial assets at fair value through profit or loss		(432)	1,546
Net decrease in placements with banks, with original maturity more than three months		44	65
Net increase in obligatory reserve with the Croatian National Bank		(167)	(62)
Net increase in loans from and advances to customers		(10)	(114)
Net decrease/(increase) in other assets		25	(48)
Net decrease in financial liabilities at fair value through profit or loss		(21)	(42)
Net (decrease)/increase in deposits from banks		(420)	586
Net increase/(decrease) in deposits from companies and other similar entities		1,801	(208)
Net increase in deposits from individuals		642	276
Net (decrease)/increase in other liabilities		(123)	146
Interest received (excluding investment securities)		911	951
Interests paid		(137)	(167)
Net cash from operating activities before tax		**1,817**	**2,521**
Income tax paid		(135)	–
Net cash from operating activities		**1,682**	**2,521**

Separate statement of cash flows
For the year ended 31 December

HRK millions	Notes	Bank 2018	Bank 2017
Cash flows from investing activities			
Interest received from investment securities		41	138
Additional investment in subsidiaries		(67)	(255)
Net inflow / (outflow) from disposal / (purchase) of investment securities		268	(922)
Dividend received from subsidiaries	32	79	72
Purchase of property, plant and equipment and intangible assets		(113)	(86)
Net cash from investing activities		**208**	**(1,053)**
Cash flows from financing activities			
Receipts from borrowings	23	8,217	2,682
Repayment of borrowings	23	(8,437)	(3,198)
Dividend paid		(396)	(385)
Net cash from financing activities		**(616)**	**(901)**
Effects of foreign exchange differences on cash and cash equivalents		3	(3)
Net increase in cash and cash equivalents		**1,277**	**564**
Cash and cash equivalents at the beginning of the year		**5,528**	**4,964**
Cash and cash equivalents at the end of the year	41	**6,805**	**5,528**

The accounting policies and other notes on pages 57 to 177 form an integral part of these financial statements.

Notes to the financial statements

1. General information

Raiffeisenbank Austria d.d. ("the Bank" or "the Parent") is a joint stock company incorporated and domiciled in Croatia. The Bank is the parent of the Raiffeisenbank Austria Group ("the Group"). These financial statements are the financial statements of the Bank and the Group as defined in International Accounting Standard 27: "Consolidated and Separate Financial Statements" and International Financial Reporting Standard 10: "Consolidated Financial Statements".

Composition of the Group (Note 14):
Raiffeisenbank Austria d.d.
Raiffeisen Building Society d.d.
Raiffeisen Leasing d.o.o.
Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.
Raiffeisen Consulting d.o.o.
Raiffeisen mirovinsko osiguravajuće društvo d.d.
Raiffeisen Factoring d.o.o.
Raiffeisen Invest d.o.o.
Raiffeisen Bonus d.o.o.

These financial statements were authorised by the Management Board on 18 April 2019 for issue to the Supervisory Board. This is English translation of statutory financial statements issued in Croatian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the financial statements takes precedence over translation.

The principal accounting policies applied in the preparation of these financial statements are summarized below. Where specific accounting policies are aligned with accounting principles set out in International Financial Reporting Standards as adopted by the EU, reference may be made to certain Standards in describing the accounting policies of the Group; unless otherwise stated, these references are to Standards applicable at 31 December 2018.

2. Basis of preparation

a) Statement of compliance

The financial statements have been prepared in accordance with statutory accounting requirements for banks in Republic of Croatia. The Bank's operations are subject to the Credit Institutions Act, in accordance with which the Bank's financial reporting is regulated by the Croatian National Bank ("CNB") which is the central monitoring institution of the banking system in Croatia. These financial statements have been prepared in accordance with these regulations. Provisions for credit losses for 2018 have been calculated in accordance with the Decision on the Classification of Exposures to Risk Groups and the Method of Determining Credit Losses, without restatement of comparative information, which entered into force on 1 January 2018.

In 2018, the Group partially applied IFRS 9 Financial Instruments, with provisions for credit losses for 2018 calculated in accordance with the CNB Decision on the Classification of Exposures to Risk Groups and the Method of Determining Credit Losses, which entered into force on 1 January 2018, which partially adopted the requirements of IFRS 9 Financial Instruments, without restatement of the comparative information. Additional provisions based on the first adoption of the Decision are reported through a decrease in the retained earnings of the Bank and the Group at 1 January 2018 in the Statement of changes in equity. Note that the previous CNB regulation, as published in the financial statements for 2017, also departed from IAS 39 Financial Instruments: Recognition and Measurement, relating to the method of impairment.

The principal differences between the accounting regulations of the CNB (primarily from requirements of the Decision on the Classification of Exposures to Risk Groups and the Method of Determining Credit Losses) and recognition and measurement requirements of International Financial Reporting Standards as adopted by the EU are as follows:

- The CNB requires banks to recognise impairment losses, in the income statement, for exposures classified in the risk subgroups A-1 and A-2 that cannot be less than 0.8% of the gross book value of exposure in those risk subgroups, except for financial assets measured at fair value through other comprehensive income. Impairment losses on balance sheet exposures classified as risk subgroups A-1 and A-2, carried at amortized cost of HRK 321 million or HRK 336 million, are recorded in the statement of financial position of the Bank and the Group (HRK 72 million and HRK 72 million kuna on off-balance sheet exposures of the Bank and the Group) in accordance with the requirements of the CNB. The corresponding

2. Basis of preparation

a) Statement of compliance (continued)

amounts charged in the Bank's and Group's profit and loss amounted to HRK 30 million and HRK 30 million, respectively, for balance sheet exposures and HRK 5 million and HRK 5 million fort off-balance sheet exposures of the Bank and the Group.

- Additionally, the CNB prescribes minimum levels of impairment losses against certain non-performing exposures, regardless of the net present value of expected future cash flows, which may be different from the impairment loss required to be recognised in accordance with the IFRS requirements.

- Furthermore, the CNB also prescribes the minimum haircut factors and the minimum period of realization of collaterals for exposures that are identified as non-performing and where the collection is expected from adequate collaterals, which may lead to different calculation of impairment.

- In accordance with local regulations, the Group recognises provisions for court cases incorporating the likelihood of the loss into measurement of the provision (i.e. if the likelihood of the loss is estimated to be 10%, the provision will be calculated as 10% of the potential loss), which is contrary to IFRS, which prescribes recognition of the full amount of potential loss, once it is probable that the court case will be lost.

b) Measurement

The financial statements are prepared on a fair value basis for derivative financial instruments, trading assets and liabilities, other financial assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortised or historical cost.

c) Basis of consolidation

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss. If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

Business combinations involving entities under common control are recognised at their carrying amounts, and the difference is recognised directly in equity, as discussed in the section Acquisition of entities under common control.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

In its separate financial statements, the Bank accounts for its investments in subsidiaries are carried at cost less any impairment.

Associates

Associates are entities over which the Group has significant influence but no control. Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements and are initially recognised at cost. The Group's investments in associates include goodwill (net of any accumulated impairment loss) identified on acquisition. In the Bank's separate financial statements investments in associates are accounted at cost less impairment.

2. Basis of preparation (continued)

c) Basis of consolidation (continued)

The Group's share of its associates' post-acquisition gains or losses is recognised in the income statement and its share of their post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equal or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise any further losses, unless it has incurred obligations or made payments on behalf of the associate.

Dividends received from associates are treated as a decrease of investment in the associate in the Group's consolidated statement of financial position and as dividend income in the Bank's unconsolidated income statement.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the assets transferred. The accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Non-controlling interests in subsidiaries are included in the total equity of the Group.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Acquisition of entities under common control

Business combinations arising from the transfer of shares in entities that are under the control of the shareholder that controls the Group are recognised at their carrying amounts since the acquisition. The acquired assets and liabilities are recognised at the carrying amounts recognised previously in the financial statements of the acquired company. Parts of the capital of the acquired companies are added to the respective positions of equity in addition to the issued capital. Differences arising from the acquisition of the Group are recognised in retained earnings. The Group does not restate comparative information as if the Group's member was always a member of the RBI Group, but the acquisition is shown from the date of acquisition.

d) Functional and presentation currency

These financial statements are presented in Croatian Kuna (HRK), which is the functional currency. Amounts are rounded to the nearest million (unless otherwise stated).

The effective exchange rate as at 31 December 2018 was HRK 7.417575 for 1 euro (2017: HRK 7.513648); HRK 6.469192 to USD 1 (2017: HRK 6.269733) and HRK 6.588129 to CHF 1 (2017: HRK 6.431816).

2. Basis of preparation (continued)

e) Use of judgments and estimates

In preparing the financial statements, Management has made judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and disclosure of commitments and contingencies at date of reporting, as well as amounts of income and expenses for the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and information available at the date of the preparation of the financial statements, the results of which form the basis of making judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods. Judgments made by management in the application of applicable standards that have significant effects on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 5. Except as stated in Note 3, the accounting policies have been consistently applied to all periods presented in these financial statements.

f) Global financial market situation and the impact on Croatia

External financial market developments have a significant impact on the operating conditions of credit institutions in Croatia. Due to the high rate of euroization of the financial system, the greatest impact on the local financial market has movements in the euro area. Monetary policy in the euro area is managed by the European Central Bank (ESB). The ESB policy is focused on achieving a targeted level of growth of 2% per annum. In the period of lower inflation pressures, the ESB is implementing expansive monetary policy measures, both conventional and non-conventional.

In 2018, ESB continued to pursue unconventional measures through a bond buyout program on secondary financial markets. But the program's intensity narrowed, and in January 2018 the target level of redemption dropped from 60 to 30 billion euros. In October 2018, the monthly redemption program was again reduced to 15 billion euros and was in line with the announcements of the ESB in December. Although in 2019 ESB no longer executes a bond buyout program, the impact of unconventional measures on financial markets does not stop. ESB will maintain the total amount of redeemed bonds in its portfolio over a longer period after the completion of the redemption program. This means that the ESB is on the upcoming bonds in its portfolio to return to the market for the purchase of replacement bonds. As a result, the impact on the financial market is realized through the targeted maturity of substitute bonds.

ESB continued to implement conventional monetary policy measures with expansionary features. The ESB's core interest rate in 2018 was 0%, while the interest rate on deposits held by banks from the euro area at ESB remained -0.4%. ESB has announced that in the second half of 2019 it could increase interest rate on deposits, but due to the strengthening of recessionary pressures in the euro area at the end of 2018, it is likely that postponement of changes in ESB policy for 2020 will be expected.

The consequence of the ECB's expansive policy is the fall in market interest rates. Market interest rates in the euro area were negative in 2018, and there were also negative bonds on first-rate bonds issued by euro area issuers with a shorter return period, with 5-year bonds. Positive returns were made only on releases with a 10-year return and longer. Negative market interest rates in the euro area have reduced yields on financial assets.

Loans in the euro area could not absorb increased liquidity in the market. Banks could hold excess liquidity at ESB with a negative yield of -0.4% or buy bonds of first-rate issuers with even lower yields. Consequently, banks and other investors have increased the risk appetite and have invested heavily in debt securities of higher risk, among which are debt clients outside the euro area, and so are Croatian clients. Consequently, the loan offer on the Croatian market grew, with interest rates lowering on time deposits and then on loans.

The Croatian financial market is characterized by a growing surplus of liquidity. The yield of interest yields on time deposits has come closer to yields on demand deposits, and the growing number of customers does not renew contracts on maturity. Consequently, non term kuna sources of funding are growing. This adjusts the currency structure of loans with sources of funding, but opens gap in the maturity structure of banks' balance sheets.

g) Standards, interpretations and amendments to published standards that are not yet effective and were not used in preparation of these financial statements

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Group has not early adopted them in preparing these financial statements, except for changes in IFRS 9 relating to advances with negative compensation, issued in October 2017.

The Group believes that other new standards and amendments will not significantly affect consolidated and separated financial statements in the period of the first adoption.

2. Basis of preparation (continued)

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases and related interpretations and is effective as of 1 January 2019. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for leases which include:
- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value.

Lessor accounting, however, shall remain largely unchanged and the distinction between operating and finance leases will be retained.

Previously, the Group recognised operating lease expenses on a straight-line basis over the time of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between the actual lease payments and the expense recognised. Instead, the Group will include payments due under the lease in lease liability.

No impact is expected for the Group's finance leases. No impact is expected for other leases in which the Group is a lessor.

The Group applies the practical expedient to grandfather the definition of lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

3. Changes in accounting policies

The Group adopted IFRS 15 Revenue from Contracts with Customers and partially IFRS 9 Financial instruments as of 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

Provisions for credit losses for 2018 were calculated in accordance with the CNB Decision on Classification of Exposures to Risk Groups and the Method of Determining Credit Losses, which entered into force on 1 January 2018, and partially adopted the requirements of IFRS 9 Financial Instruments.

Due to the transition method chosen by the Group in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements. Calculated additional provisions based on the first adoption of the Decision are presented as a reduction of the retained earnings of the Bank and the Group at 1 January 2018 in the Statement of changes of equity, with additional disclosures being the most significant effect of the first adoption of the Decision.
The adoption of IFRS 15 due to the structure of services provided by Bank and Group did not affect the timing and amount of recognition of income from client fees and the related assets and liabilities recognized in the financial statements.

Given the structure of Bank and Group revenues and the extent of disclosure in the last financial statements, no additional disclosures regarding the adoption of IFRS 15 have been identified.

IFRS 9 Financial instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As permitted by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39.
As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require separate presentation in the income statement of interest revenue calculated using the effective interest method.

3. Changes in accounting policies (continued)

IFRS 9 Financial instruments (continued)

The Group has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018, but have not been applied to the comparative information.

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 ie the first application of the Decision on Classification of Exposure to Risk Groups and the Method of Determining Credit Losses (Decision on Classification) are summarized below are summarised below. The full impact of adopting the standard is set out in Note 7.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets:
- measured at amortised cost,
- fair value through other comprehensive income (FVOCI) and
- fair value through profit or loss (FVTPL).

IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

According to IFRS 9, derivative components embedded in contracts whose core component is financial assets within the scope of the standard are not separated. Instead, the entire hybrid instrument is evaluated for classification.

For an explanation of how the Group classifies financial assets under IFRS 9, see Note 7.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Group classifies financial liabilities under IFRS 9, see Note 7.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Group applies requirements of the Decision on Classification, which partially adopted requirements for impairment from IFRS 9, see Note 7.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9, ie Decision on Classification have been applied retrospectively, except as described below.
- Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9, ie Decision on Classification are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The Group used the exemption not to restate comparative periods but considering that the amendments made by IFRS 9 to IAS 1 introduced the requirement to present 'interest income calculated using the effective interest rate' as a separate line item in the statement of profit or loss and OCI, the Group has reclassified comparative interest income on finance leases to 'other interest income' and changed the description of the line item from 'interest income' reported in 2017 to 'interest income calculated using the effective interest method'.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The classification of the business model within which a financial asset is held.
  - The classification and reclassifiction of of certain financial assets and financial liabilities previously designated as measured at FVTPL.
  - The classification of certain investments in equity instruments not held for trading as at FVOCI.
  - For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or increase an accounting mismatch in profit or loss.

3. Changes in accounting policies (continued)

Transition (continued)

- If the debt securities at the first adoption of IFRS 9 ie the Decision on Classification had a low credit risk, the Group assumed that the credit risk on assets did not increase significantly from the initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, ie Decision on Classification see Note 7.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. However, the Standard does not apply to recognition of revenue arising from financial instruments under IFRS 9 or in connection with the recognition of leases in accordance with IAS 17 and therefore did not have any impact on the timing or amount of recognition of fees and commissions income contracts with clients.

Fees and commissions that are an integral part of the effective interest rate and are directly linked to the granting of a loan or the creation of a financial instrument do not fall within the scope of IFRS 15, whether or not they have been charged in advance or at maturity.

Fees and commissions falling within the scope of IFRS 15 due to their economic nature are recognized in the income statement on the date on which the service is provided or deferred and recognized on a straight-line basis. Due to the fact that revenue under IFRS 15 includes fees for performing loan administration and management services that have already been recognized as deferred fee income in accordance with IAS 18 and must also be deferred to IFRS 15, the application of IFRS 15 has no impact to net income from fees and commissions.

With regard to the structure of Bank and Group revenues and the extent of disclosure in last year's financial statements, no additional disclosures have been identified regarding the first application of IFRS 15

4. Significant accounting policies

Except for the changes in accounting policies described in Note 3, the accounting policies summarized below have been applied consistently for all periods presented in these financial statements.

Interest income and expense

Applicable after 1 January 2018

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:
- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability,

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit- impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount

4. Significant accounting policies (continued)

Interest income and expense (continued)

of the asset (when the asset is not credit- impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Penalty interest is calculated when collected.

For information on when financial assets are credit-impaired, see Note 48.

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:
- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest expense presented in the statement of profit or loss and OCI includes interest expenses on financial liabilities measured at amortised cost. Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

Applicable until 1 January 2018

Interest income and expense are recognised in profit or loss as they accrue, for all interest bearing financial instruments including those measured at amortised cost, at fair value through profit or loss, available for sale, and the interest income component of finance lease receivables, using the effective interest rate method except for financial instruments at fair value through profit or loss, where interest is accrued at the coupon rate.

Such income and expense are presented as interest income or interest expense in profit or loss. Interest income and expense also include fee and commission income and expense in respect of loans provided to customers or borrowings from other banks, premium or discount amortisation, and other differences between the initial carrying amount of an interest bearing financial instrument and its value at maturity, recognised on an effective interest basis. Interest income and expense on all trading assets and liabilities are presented as interest income or expense.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and method of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group does not consider future credit losses. The calculation includes all fees and percentage points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fee and commission income and expense

Fee and commission income and expense arises on financial services provided by the Group and received by the Group, and mainly comprises fees related to domestic and foreign payments, the issue of guarantees and letters of credit, credit card business and other services provided by and to the Group including asset management and custodial services. Fee and commission income and expense are recognised in profit or loss when the related service is performed.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Commitment fees in relation to facilities where draw down is not probable are recognised over the term of the commitment. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part for itself, or has retained a part at the same effective interest rate as the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees related to investment fund management are recognised on an accruals basis over the period in which the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

4. Significant accounting policies (continued)

Dividend income

Dividend income from equity securities or, in the case of the Parent's separate financial statements, investments in subsidiaries, is recognised in profit or loss when the rights to receive the dividend are established.

Gains less losses from trading and investment financial instruments

Gains less losses from trading securities include unrealized and realized gains and losses arising from derivative financial instruments, trading debt securities and other financial instruments initially designated at fair value through profit or loss, and since 1 January 2018, non trading securities, mandatorily measured at fair value through profit or loss.

Gains less losses arising from investment securities comprise of realised gains and losses from financial assets available for sale.

Gains less losses arising from dealing in foreign currencies

Gains less losses from dealing in foreign currencies include unrealized and realized gains and losses arising from spot transactions in foreign currencies.

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction and are not retranslated. Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of equity instruments at FVOCI (before 1 January 2018 available for sale), which are recognised in other comprehensive income (refer below).

Changes in the fair value of monetary (debt) securities denominated in or linked to foreign currency classified as at FVOCI (before 1 January 2018 available for sale) are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences are recognised in income as a part of the foreign exchange gains or losses on the revaluation of monetary assets and liabilities presented within financial income or financial expense in the profit or loss. Other changes in the carrying amounts are recognised in profit or loss. The translation differences on revaluation of non-monetary financial assets denominated in or linked to foreign currency classified as at FVOCI (before 1 January 2018 available for sale) are recognised in other comprehensive income, along with other changes in their fair value.

Financial instruments: classification

Applicable after 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

4. Significant accounting policies (continued)

Financial instruments: classification (continued)

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:
- the stated policies and objectives for the portfolio and the operation of those policies in practice.
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Group considers a:
- contingent events that would change the amount and timing of cash flows;
- prepayment and extension terms; and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Loans and advances

'Loans and advances' captions in the statement of financial position include loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- loans and advances mandatorily measured at FVTPL or designated as at FVTPL these are measured at fair value with changes recognised immediately in profit or loss; and
- finance lease receivables.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Group's financial statements.

Investment securities

The 'investment securities' caption in the statement of financial position includes:
- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:
- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

4. Significant accounting policies (continued)

Investment securities (continued)

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

Applicable until 1 January 2018

The Group classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, available for sale, held to maturity or other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. The management determines the classification of financial instruments upon initial recognition, and, where appropriate, re-evaluates this designation at every reporting date.

a) Financial assets and financial liabilities at fair value through profit or loss

This category comprises: financial instruments held for trading (including derivatives), and those designated by management as at fair value through profit or loss at inception. The Group designates financial assets and liabilities at fair value through profit or loss when:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Financial instruments at fair value through profit or loss include debt and equity securities, investments in investment funds and derivatives.

b) Loans and receivables

This category comprises non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money to a debtor with no intention of trading with the receivable and include loans to and receivables from banks, loans to and receivables from customers, and the obligatory reserve with the CNB.

c) Financial instruments held to maturity

This category comprises non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. These include purchased loans and receivables and some debt securities.

The Group will not classify financial assets as held to maturity if during the current financial year or during the previous two financial years, more than an insignificant number of financial instruments held to maturity was sold or reclassified from financial instruments, other than sales or reclassifications that:
- are close to maturity and date of the call for sale of financial assets;
- arise after the Group mainly collected all the original principal of the financial assets through planned payments or early settlement; or
- can be linked to an isolated event beyond the control of the Group that could not be reasonably anticipated by the Group.

d) Financial assets available for sale

This category comprises non-derivative financial assets which are designated as available for sale or are not designated as loans and receivables, held-to-maturity investments, or financial assets at fair value through profit or loss. Financial assets designated as available for sale are intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates, or equity prices. Available-for-sale financial assets include certain debt and equity securities.

4. Significant accounting policies (continued)

e) Other financial liabilities

Other financial liabilities comprise all financial liabilities which are not designated at fair value through profit or loss.

Financial instruments: reclassification

Applicable after 1 January 2018

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets. Financial liabilities are not reclassified.

Applicable until 1 January 2018

No transfers of derivatives and financial instruments initially designated as at fair value through profit and loss are allowed to other portfolios. Financial assets held for trading may be reclassified from this category in the case when both of the following two conditions are met: a change in the intended purpose of the assets and an extraordinary event. In such case, the fair value at the reclassification date becomes the new cost/amortised cost. Reclassification is possible to the available-for-sale portfolio, the held-to-maturity portfolio and the loans and receivables portfolio. Transfers from other portfolios to the portfolio at fair value through profit and loss are not possible.

Financial asset classified as available for sale that would have met the definition of loans and receivables (if it had not been designated as available for sale) may be reclassified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity. For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in other comprehensive income shall be amortised to profit or loss over the remaining life of the asset using the effective interest method.

Financial instruments: recognition and de-recognition

Purchases and sales of financial assets and financial liabilities at fair value through profit or loss, and financial assets held to maturity and available for sale, are recognised on the settlement date. Loans and receivables and financial liabilities at amortised cost are recognised when loaned or borrowed.

The Group de-recognises financial instruments (in full or part) when the rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights over financial assets. It occurs when the Group transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realised, surrendered or have expired.

Any interest in transferred financial assets, that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred) and consideration received (including any new asset obtained less any new liability assumed) is recognised in the income statement. In addition, any cumulative gain or loss that had been recognised in other comprehensive income is also recognised in the income statement.

From 1 January 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized as a separate asset or liability.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. If transfer does not result in derecognition because the Group retained all or substantially all risks and rewards of ownership, the assets are not derecognised and liabilities secured with collateral are recognised in the amount of consideration received.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire, If the terms of a financial liability are significantly modified, the Group will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions.

Realised gains and losses from the disposal of financial instruments are calculated using the weighted average cost method.

Financial instruments: initial and subsequent measurement

Financial assets and liabilities are recognised initially at their fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the

4. Significant accounting policies (continued)

Financial instruments: initial and subsequent measurement (continued)

financial asset or financial liability. Financial assets at fair value through profit or loss are initially recognised at fair values, and transaction costs are directly recognised in profit or loss.

After initial recognition, the Group measures financial instruments at fair value through profit or loss and at fair value through other comprehensive income at their fair value, without any deduction for selling costs.

Loans and receivables and investments at amortised cost and financial liabilities not designated at fair value through profit or loss are measured at amortised cost using the effective interest method, less eventually impairment.

Financial instruments: gains and losses

Gains or losses arising from a change in the fair value of financial assets or financial liabilities at fair value through profit or loss are recognised in profit or loss, as well as all realized gains and losses on sale or derecognition of such assets and liabilities recognized in profit or loss.

Gains or losses from a change in the fair value of monetary assets at FVOCI are recognised directly in a fair value reserve within other comprehensive income and are disclosed in the statement of changes in equity. Impairment losses, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest method on monetary assets at FVOCI are recognised in profit or loss. Foreign exchange differences on equity instruments are part of the fair value of these instruments and are recognised in other comprehensive income. Dividend income is recognised in profit or loss. Upon sale or other derecognition of assets at FVOCI, any cumulative gains or losses on the instrument are transferred to profit or loss.

Gains or losses arising from financial assets and financial liabilities carried at amortised cost are recognised as interest in profit or loss over the period of amortisation. Gains or losses may also be recognised in profit or loss when a financial instrument is derecognised or when its value is impaired.

Netting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Group has a legally enforceable right to set off the recognised amount and the transactions are intended to be settled on a net basis, or to release the assets and settle the liabilities simultaneously.

Income and expenses are stated in net amounts only if this is allowed under accounting standards, or for gains and losses from the group of similar transactions, such as trading activities of the Group.

Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for the instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The fair value of quoted financial instruments in an active market is based on their closing bid prices. If there is no active market for the financial instrument, or if, due to any other reason, the fair value cannot be reliably measured by the market price, the Group uses an internal evaluation model for fair value estimation as described in Note 49. Such models include the use of prices achieved in recent transactions, reference to similar financial instruments, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate.

The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate.

4. Significant accounting policies (continued)

Fair value measurement principles (continued)

The fair value of non-exchange-traded derivatives is estimated at the amount that the Group would receive or pay to terminate the contract on date of reporting taking into account current market conditions and the current creditworthiness of the counterparties.

Amortised cost of financial assets or liabilities is the amount at which that financial asset or liability is initially recognized, less any principal repayments, increased or decreased by cumulative depreciation by applying the effective interest method to an eventual difference between the initial recognition and the amount at maturity, less any impairment allowance.

Modifications of financial assets and liabilities

Applicable after 1 January 2018

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset is substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset is deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss.

For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value.

The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Applicable until 1 January 2018

If the terms of a financial asset were modified, then the Group evaluated whether the cash flows of the modified asset wewasubstantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised and a new

4. Significant accounting policies (continued)

Modifications of financial assets and liabilities (continued)
Applicable until 1 January 2018 (continued)

financial asset was recognised at fair value. If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre- modification interest rate.

The Group derecognised a financial liability when its terms were modified and the cash flows of the modified liability was substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss.

Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability. If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Applicable after 1 January 2018

Since 1 January 2018 the Group measures expected losses in accordance with the Decision on Classification.

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:
- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments and financial assets at FVTPL.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:
- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.
- the expected credit losses of assets carried at amortized cost of Stage 1 and Stage 2 may not be less than 0.8% in accordance with the requirements of the Decision on classification,
- Expected credit losses of Stage 3 assets are also measured taking into account the minimum requirements of the Decision on classification.

4. Significant accounting policies (continued)

Impairment of financial assets (continued)
Applicable after 1 January 2018 (continued)

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or another financial reorganisation.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision,
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the undrawn commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component.
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

4. Significant accounting policies (continued)

Impairment of financial assets (continued)

Applicable until 1 January 2018

Financial assets carried at amortised cost and finance lease and operating lease receivables

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets not carried at fair value through profit or loss is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:
I) significant financial difficulty of the borrower;
II) a breach of contract, such as a default or delinquency in interest or principal payments;
III) the restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider;
IV) significant restructuring due to financial difficulty or expected bankruptcy of the borrower;
V) the disappearance of an active market for the financial asset because of financial difficulties;

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Provisions for impairment losses on a collective basis are calculated based on percentage prescribed by the CNB for the Raiffeisenbank Austria d.d. Zagreb and Raiffeisen Building Society d.d. and based on RBI methodology for other subsidiaries. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

When a loan is uncollectible, it is written off through the related provisions for impairment losses. Loans are written off after all the necessary procedures and determining the amount of loss. Additional collection of the previous written off amounts are recognised as reversal of the impairment loss in the income statement.

When possible, the Bank seeks to restructure loans rather than to take possession of collateral. If the terms of the financial assets are renegotiated or modified or an existing financial asset is replaced with the new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated assets are substantially different, then the contractual rights to cash flows from the original financial assets are deemed to have expired. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective assessment, calculated using the loan's original effective interest rate. Similar analysis is undertaken for finance and operating lease receivables, related predominantly to subsidiary Raiffeisen Leasing.

Financial assets available for sale

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the assets are impaired. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is subsequently recognised in other comprehensive income rather than profit of loss until final derecognition.

4. Significant accounting policies (continued)

Specific financial instruments

a) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with central banks, placements with other banks with original maturities of three months or less and items in course of collection and are carried at amortised cost in the statement of financial position.

b) Derivative financial instruments

Applicable after 1 January 2018

Derivatives may be embedded in another contractual arrangement (a host contract), The Group accounts for an embedded derivative separately from the host contract when:
- the host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

Applicable until 1 January 2018

The Group uses derivative financial instruments to hedge economically its exposure to currency risk and interest rate risk arising from operating, financing and investing activities. In accordance with its investment policies, the Group holds or issues a limited number of derivative financial instruments for the purpose of trading.
Derivative financial instruments include foreign currency agreements, forward and forward rate agreements, futures, interest rate swaps, cross currency swaps, options and other financial derivatives. They are initially recognised at fair value which is the value of consideration paid to acquire the instrument less transaction costs. Subsequent to initial recognition, derivatives are measured at fair value. The fair value is determined based on the quoted market price or, if more appropriate, based on discounted cash flow calculations. All derivative instruments are presented as assets if their fair value is positive and as liabilities if their fair value is negative.

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. An embedded derivative is treated as a separate derivative and classified at fair value through profit or loss, except where its recognition is not in conflict with the requirements of the CNB, when the economic characteristics and risks of the embedded derivatives are not closely related to the host contract and where the hybrid contract itself is not measured at fair value through profit or loss with the presentation of all unrealised gains and losses in profit or loss unless there is a reliable fair value measure.

Changes in the fair value of derivatives are included in net trading income.

Hedge accounting

The Group continued to apply hedge accounting under IAS 39.

The Group uses derivative financial instruments to manage its exposures to interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which they are entered to and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

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

4. Significant accounting policies (continued)

Specific financial instruments (continued)

b) Derivative financial instruments (continued)
Hedge accounting (continued)

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

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

Fair value hedge

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

Changes in fair value of derivatives designated and eligible as fair value hedges are recognised immediately in profit or loss, together with any changes in fair value of the hedged items i.e. hedged liability which can be associated with hedged risk. The change in the fair value of a hedge instrument is recognised in profit or loss, together with the change in the fair value of a hedge item related to risk being hedged.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. Since that day any adjustment of a carrying amount of a hedge item referring to the changes of a fair value related to risk being hedged is amortized through profit and loss.

If the hedged item is derecognized, the unamortized fair value is recognized immediately in profit and loss.
The Group applies fair value hedge of interest rate risk of individual items and on a portfolio basis.

c) Treasury bills and debt securities

Treasury bills and debt securities that the Group holds for the purpose of short-term profit taking are classified as trading financial instruments, included as financial instruments at fair value through profit or loss at inception. Treasury bills that the Group has the intent and ability to hold to maturity are classified as held-to-maturity assets. Other treasury bills and debt securities are classified as available for sale.

d) Equity securities and investments in open ended investment funds

Equity securities and investments in open ended investment funds are classified as at fair value through profit or loss or available for sale.

e) Placements with banks

Placements with banks are classified as loans and receivables and are carried at amortised cost less impairment losses.

f) Loans and advances to customers

Loans and advances are presented net of impairment losses.
In accordance with CNB requirements, the amortisation of any discounts included within impairment losses is included in impairment losses.

g) Investments in subsidiaries and associates

Investments in subsidiaries and associates are accounted at cost less impairment in the separate financial statements of the Bank. Investments in subsidiaries are fully consolidated in the consolidated financial statements of the Group whilst investments in associates are accounted for under the equity method.

4. Significant accounting policies (continued)

Specific financial instruments (continued

h) Borrowings and subordinated liabilities

Interest-bearing borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between proceeds (net of transaction costs) and redemption value being recognised in profit or loss over the period of the borrowings on an effective interest basis.

i) Repurchase and sale buy-back agreements

The Group enters into purchases/(sales) of investments under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to such commitments to resell them at future dates are not recognised. The amounts paid are recognised in loans and advances to either banks or customers. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for the relevant financial asset at amortised cost or at fair value as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers.

The difference between the sale and repurchase consideration is recognised on an accrual basis over the period of the transaction and is included in interest income or expense.
The Group also enters into linked sale and buy-back transactions. In accordance with their substance, these are similarly accounted for as transactions under repurchase or resale agreements, as described above.

j) Current accounts and deposits from banks and customers

Current accounts and deposits are classified as other liabilities and initially measured at fair value plus transaction costs, and subsequently stated at their amortised cost using the effective interest method.

Income tax

The income tax charge is based on taxable profit for the year and comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at date of reporting, and any adjustments to tax payable in respect of previous years.

Deferred taxes are calculated by using the balance sheet liability method. Deferred income 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 income tax purposes. Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable profit in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at date of reporting.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at date of reporting, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the statement of financial position. Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each statement of financial position date, the Group reassesses unrecognised potential deferred tax assets and the carrying amount of recognised deferred tax assets.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Property, plant and equipment

Items of property, plant and equipment are stated at historical cost or deemed cost, less accumulated depreciation and, if any, impairment losses.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other expenditure on repairs and maintenance is expensed as incurred.

4. Significant accounting policies (continued)

Property, plant and equipment (continued)

Leases in terms of which the Group as a lessor assumes substantially all the risks and rewards of ownership are classified as operating leases. Plant and equipment acquired in connection with such leases are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the leases, less accumulated depreciation and impairment losses. Assets under operating leases are depreciated on a straight line basis so as to write down the cost of the assets over the estimated lease period to their recoverable residual values.

Depreciation is provided on a straight-line basis to allocate the costs of assets to their residual values over their estimated economic useful life. Land and assets under construction or developed are not depreciated. The estimated useful lives are as follows.

	2018.	2017.
Buildings	50 years	50 years
Equipment	4 – 10 years	4 – 10 years
Office furniture	4 years	4 years
Assets under operating leases (depending on the duration of the contract, depreciated to the residual value)	2 – 20 years	2 – 20 years

The assets' residual values, depreciation method and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount, and are included in profit or loss.

Investment properties

Investment property held by the Group to earn rentals or for capital appreciation, including assets under construction for the intended use, is initially measured at cost, and subsequently reduced by accumulated depreciation and any impairment losses.

Subsequent cost of replacing part of an existing asset is recognized in the carrying amount of an investment property at the time that cost is incurred, when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed during the period in which they are incurred. Where parts of property and equipment of significant value have different useful lives, they are accounted for as separate items of property, plant and equipment.

Land and assets under construction are not depreciated. Depreciation is provided on other investment property on a straight-line basis at prescribed rates designed to write off the cost over the estimated useful life of the asset.

	2018.	2017.
The estimated useful life of the assets is as follows:		
Leased property	50 years	50 years

Remaining value, depreciation methods and the estimated useful life are reviewed periodically and reconciled, if necessary, at every financial position reporting date. If the carrying amount of the assets is found to be higher than the assessed recoverable amount, it is immediately written-off to the recoverable amount. Gains and losses from alienation are assesses by comparing sale revenues against the book amount and recorded in the comprehensive income.

Inventory and foreclosed assets

The Group occasionally acquires real estate and other asset in settlement of certain loans and advances and finance and operating lease contracts, which also includes returned leased assets of the subsidiary Raiffeisen Leasing d.o.o.. Such real estate and other assets are stated at the lower of the net carrying of the related loans and advances and the current fair value of such assets. Subsequent measurement is at the lower of cost and recoverable amount. The Group's intention is mainly to sell such assets, however, such assets in certain limited cases may end up being used by the Group.
Gains or losses on disposal are recognised in profit or loss.

INTRODUCTION
2018 BUSINESS DEVELOPMENTS
RBI AT A GLANCE
FINANCIAL STATEMENTS
CONTACTS

4. Significant accounting policies (continued)

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Expenditure on development activities are capitalised if all of the features required by IAS 38 "Intangible assets" are satisfied. Depreciation is provided on a straight-line basis over the estimated useful lives of intangible assets. Costs associated with developing or maintaining intangible assets are recognised as an expense as incurred. In accordance with CNB regulations, intangible assets include leasehold improvements.

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

	2018.	2017.
Leasehold improvements	1 – 20 years	1 – 20 years
Software	5 – 8 years	5 – 8 years

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets are tested for impairment at each reporting date.

If any indication exists, the asset's recoverable amount is estimated. For assets that have an indefinite useful life and intangible assets that are not yet available for use and goodwill, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from the Group's other assets and liabilities. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their net present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Once recognised impairment loss of goodwill is not subsequently reversed.

Provisions for liabilities and charges

The Group recognises a provision when it 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 the obligation, and a reliable estimate can be made of the obligation.

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. The management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

Provisions are released only for such expenditure in respect of which provision are recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

4. Significant accounting policies (continued)

Leases-Group as lessor

a) Finance leases

Leases where the Group as lessor transfers substantially all the risks and rewards incidental to ownership to the lessee are classified as finance leases. A receivable at an amount equal to the present value of the lease payments, including any guaranteed residual value, is recognised. The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognised over the term of the lease using the effective interest rate method. Finance lease receivables are included in loans and advances to customers.

b) Operating leases

Leases where the Group as lessor retains substantially all the risks and rewards incidental to ownership are included in tangible and intangible assets at cost net of accumulated depreciation. Rental income under operating leases is recognised in profit or loss on a straight-line basis over the term of the lease.

Employee benefits

a) Defined pension contributions

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

b) Long-term service benefits

The Bank provides employees with one-off retirement awards. The obligation and costs of these benefits are determined by using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation.

c) Pension insurance

Pension insurance provisions of subsidiary Raiffeisen mirovinsko osiguravajuće društvo d.o.o. have been computed by the Group's licensed actuary, in accordance with the method prescribed by the Law on Pension Insurance Companies and Payment of Pensions based on Individual Capitalised Savings.

Dividends

Dividends are recognised when declared by shareholders in General Assembly meeting.

Share capital

Share capital represents the nominal value of paid-in ordinary and non-redeemable noncumulative preference shares classified as equity, on which dividends are payable at the discretion of the ordinary shareholders, and are stated in HRK at nominal value.

Treasury shares

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

Retained earnings

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

4. Significant accounting policies (continued)

Earnings per share

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

Off-balance-sheet commitments and contingent liabilities

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

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

Liabilities under financial guarantees are initially recognized at fair value which represents the consideration and its initial fair value is amortized over the term of the financial guarantee.

Liabilities under guarantees are subsequently beginning on or after 1 January 2018 stated at the higher of the loss allowance determined in accordance with IFRS 9 and the amount of the initially recognized loss with the deduction, when applicable, of the cumulative amount of revenue recognized in accordance with the principles of IFRS 15 Financial guarantees and included in other liabilities

Managed funds for and on behalf of third parties

The Group manages assets on behalf of other companies and individuals for which a fee is charged. As these assets do not represent assets of the Group, they are excluded from the statement of financial position.

The Group makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated, and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Bank's credit risk portfolio represents the major source of estimation uncertainty. This and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. Significant judgments made in determining the most appropriate methodology for estimating the fair value of financial instruments carried at fair value, and other significant judgments affecting how items and transactions are accounted for, are also described below.

The estimate of loan loss provisions represents management's best estimate of the default risk and expected credit losses on a financial asset, including all off-balance exposures, at the reporting date, and, also, the estimate of the fair value of real property collateral represents the main source of uncertainty of the estimate.

This and other key sources of uncertainty of the estimate, which have a significant risk of causing potential significant adjustments of book value of assets and liabilities in the subsequent financial year, are described further below.
These explanations complement the comment on fair value of financial assets and liabilities (Note 49) and management of financial risks (Note 48).

5. Significant accounting estimates and judgements

a) Classification of financial assets

Business Model Assessment

The Bank determines its business models based on the objective under which its portfolios of financial assets are managed. Refer to Note 4 for details on the Bank's business models. In determining its business models, the Bank considers the following:
- Management's intent and strategic objectives and the operation of the stated policies in practice;
- The primary risks that affect the performance of the business model and how these risks are managed;
- How the performance of the portfolio is evaluated and reported to management; and

5. Significant accounting estimates and judgements (continued)

a) Classification of financial assets (continued)

- The frequency and significance of financial asset sales in prior periods, the reasons for such sales and the expected future sales activities.

Solely Payments of Principal and Interest Test

In assessing whether contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that they would not be consistent with a basic lending arrangement. In making the assessment, the Group considers the primary terms as follows and assess if the contractual cash flows of the instruments continue to meet the SPPI test:
- Performance-linked features;
- Terms that limit the Bank's claim to cash flows from specified assets (non-recourse terms);
- Prepayment and extension terms;
- Leverage features; and
- Features that modify elements of the time value of money.

b) Impairment of financial assets

Significant increase in credit risk

When determining whether the risk of default status as significantly increased, the Bank uses relevant and available information. Access includes quantitative and qualitative criteria, ie historical-based analysis and expert credit risk assessment, and includes a forward looking component.
A quantitative criterion or a quantitative threshold of significance is applied to change the probability of entering into the status of default status during the entire period of credit exposure over the reporting date, relative to the estimate of exposure. If the difference in the probability estimation of the entry into the status of default status exceeds the threshold of significance, the exposure is determined by a significant deterioration of the credit risk, which is why it is grouped into group 2.

In non-retail exposures, the Bank considers that the internal credit rating represents a comprehensive estimate of the borrower's credit quality, and the PD is, where relevant, corrected by the status of a macroeconomic position. The estimate of the occurrence of the increased risk is based on the level of credit risk that existed when the credit exposure was approved. The PD used in the calculation is adjusted using the macroeconomic forecast and thus receives a point-in-time PD. The list of qualitative criteria mostly contains data that can be obtained using the internal rating models used as inputs in rating. Since all of these data are contained and in the rating itself, a quantitative criterion is sufficient for a precise estimate of a significant increase in credit risk. Other forward looking information used is a holistic approach, market indicators, Early Warning System, changes in contractual provisions, forbearance and non-performing regulatory definitions, and a delay of more than 30 days.

In retail exposures, the estimated probability of entering a non-performing exposure is based on the scoring models used by the Bank in managing credit risk and statistical models and statistical estimates, depending on the type of exposure and including the impact of expected macroeconomic developments. Qualitative criteria include detection of indicators forbearance, holistic access indicators, more than 30 days delay, entry into the status of default status (as the definition of entry to the status of default status of the product level for exposure to the private individuals applies). If at least one indicator of a significant increase in credit risk is detected compared to the placement approval estimate, the placement will be allocated to Stage 2 (Group A2 / Fazu2).

Measuring expected credit loss

Expected credit losses are calculated as a multiplication of PDs (probability of default), loss given default (LGD) and exposure at default (EAD) over the remaining expected life of the financial asset and are discounted at the date reporting at the effective interest rate for exposures with a significant increase in credit risk (Stage 2 Contracts). On the other hand, for Exposures classified as Stage 1, the expected credit loss is calculated over a one-year period, ie the estimated 1-year credit loss is estimated. PDs present PD at a certain point, updated annually according to the Group's historical experience, current conditions and future-oriented expectations. LGD estimates are determined on the basis of historical payback. EAD includes future-oriented expectations on repayments of the utilized balances and expectations for future exploitation, where applicable.

Retail exposures (private individuals and Micro companies) that are in the default status , estimates of expected loss on credit risk and the calculation of reserves are also on a collective basis, using the BEEL parameters. Namely, the Bank has developed

5. Significant accounting estimates and judgements (continued)

b) Impairment of financial assets (continued)

a BEEL - best estimate expected loss ratio for the private individuals portfolio, based on its own historical data. BEEL primarily depends on the length of time spent in months of default, and for unsecured placements it also depends on the number of months since the last payment on the loan.

Also, when calculating exposure provisions in Group B and C, the minimum expected loss rates prescribed by the Decision on classification are applied, and the calculation based on the individual collateral value is taken into account for the placements covered.

The final calculation represents the maximum amount between the expected loss estimates based on the BEEL parameters, the minimum rates from the Decision on classification and the provisions for the placements, the exposure amount less the expected cash inflow from the sale of collateral.

Impairment losses on assets that are individually assessed as assets impaired for loan losses (2017: impairment) are based on the management best estimate on the present value of cash flows expected to be received. In assessing these cash flows, the management makes judgments about the borrower's financial situation and the net value of any underlying collateral. Each impaired asset is valued separately, and the strategy for restructuring and estimating cash flows that are considered recoverable is independently approved by the credit risk function.

Due attention is devoted to the minimum requirements of the CNB.

Forward looking information

In calculating the ECL, the Group applies internally developed models that use PD and LGD parameters. Macroeconomic future-oriented macroeconomic factors are included in risk parameters as relevant. Three scenarios are used in the forecast of macroeconomic variables (baseline with 50%, upside and downside scenarios with 25% weight).

Additional risk factors that are specific to individual segments are also included if relevant.

Measurement of financial assets reflects the best estimate of the effects of future conditions, and in particular the economic conditions affecting forward-looking probabilities of the non-performance of liabilities and losses due to the default status.

In terms of the method, different possible alternative approaches were analysed to take account of these elements. Of the various options that have been considered, the Group has decided to adopt the "Most likely scenario + Add-on" approach. In accordance with this approach, the macroeconomic condition of PD and LGD is performed through the "Most-probable" scenario and then corrected by the add-on to include all the differences compared to downward and upward scenarios.

Expected credit losses

Expected loan losses are recognized when the financial asset is initially recognized. The provision for credit losses represents the best estimate of the management of the risk of default status and expected credit losses (ECL) on financial assets, including all off-balance sheet exposures, at the reporting date.

The management's judgment is used to determine the item within the range that is the best estimate of the qualitative component that contributes to ECLs, based on business and economic conditions estimates, historical loss experience, credit portfolio composition and other relevant indicators and advanced information indicators. The Management Board shall apply a judgment to ensure that the estimate of loss attributable to historical information is appropriately adjusted to reflect current economic conditions. Loss rates are regularly compared to the actual loss experience. Changes to these assumptions would have a direct impact on provisions for credit losses and could result in a change in loan loss provisions.

CNB requirements

The Bank and the Group are required to comply at all times with the CNB's requirements related to the Decision on classification and the method of determining loan losses related to the minimum percentage of provisions for performing and non-performing assets and to the minimum corrective factors and minimum periods for realization of collateral.

5. Significant accounting estimates and judgements (continued)

b) Impairment of financial assets (continued)

Impairment of financial assets before 1 January 2018
The Bank monitors the creditworthiness of its customers on an ongoing basis. In accordance with CNB regulations, the need for impairment of the Bank's on- and off-balance-sheet credit risk exposure is assessed at least quarterly. Impairment losses are made mainly against the carrying value of loans and advances to corporate and private individuals(summarised in Note 12), placements with and loans to other banks (Note 10) and as provisions for liabilities and charges arising from off-balance-sheet risk exposure to customers, mainly in the form of guarantees and documentary letters of credits (summarised in Notes 24 and 44). Impairment losses are also considered for credit risk exposures to banks, and for other assets not carried at fair value, where the primary risk of impairment is not credit risk. Decrease in provisions for impairment losses on the Bank's and Group's balance sheet exposure in 2018 refers primarily to the sale and the write-off of part of non performing credit portfolio by the Bank.

Financial assets at amortised cost

The Group first assesses whether objective evidence of impairment exists individually for assets that are individually significant (mainly corporate exposures) and collectively for assets that are not individually significant (mainly retail exposures). However, assets assessed individually as unimpaired are then included in groups of assets with similar credit risk characteristics. These portfolios are then assessed collectively for impairment.

The Group estimates impairment losses in cases where it judges that the observable data indicates the likelihood of a measurable decrease in the estimated future cash flows of the asset or portfolio of assets. Such evidence includes delinquency in payments or other indications of financial difficulty of borrowers; and adverse changes in the economic conditions in which borrowers operate or in the value or enforceability of security, where these changes can be correlated with defaults.

The Group takes into consideration the combined effect of several events when assessing impairment and uses its experienced judgement in cases where the observable data required to estimate impairment is limited. In estimating impairment losses on items individually or collectively assessed as impaired, the Group loan loss model prescribed by the CNB based on the past due days. In estimating impairment losses on items individually assessed as impaired for corporate portfolio the Group uses discounted cash flow model.

c) Fer value of derivatives

The fair value of OTC derivatives is determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices.

d) Fair value of treasury bills

The Bank determines the fair value of treasury bills issued by the Ministry of Finance of the Republic of Croatia, using an internal model which considers their remaining maturity and the latest available auction prices of equivalent instruments. As at 31 December 2018, the carrying amount of treasury bills classified as financial assets at fair value through profit or loss and financial asset at fair value through other comprehensive income amounted to HRK 1,073 million (2017: HRK 909 million) for the Group and HRK 978 million (2017: HRK 821 million) for the Bank.

e) Provisions for severance payments

In calculating provisions for severance payments, the Group discounts expected future cash flows in respect of the liabilities, using discount rates that, in opinion of the Bank's management, best represent the time value of money.

f) Provisions for court cases

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are maintained at the level that the Group's management considers sufficient for absorption of incurred losses. The management determines the sufficiency of provisions on the basis of insight into specific items, current legal circumstances, as well as other relevant factors.

5. Significant accounting estimates and judgements (continued)

f) Provisions for court cases (continued)

According to the CNB decision a credit institution shall allocate litigation to risk groups A (no risk of loss established or a cash flow outflow or less than 10% of the total estimated amount), B (a risk of loss established or a cash outflow between 10% and 70% of total amount estimated) or C (high risk of loss established or a cash outflow of more than 70% of the total amount estimated). In determining the current value of future cash flows, taking into account all factors that have influenced or will influence the time value of money, the Bank applies legal penalty interest and CNB discount rate applicable for the last day of the half year preceding the current half year increased by 8 basis points for court cases led against the Bank by corporate entities, and 5 basis points for all other court cases led against the Bank.

Provisions for court cases are booked in profit or loss for the period in which the provision is recognized.

As explained in Note 24, the Group and the Bank provided HRK 75 million (2017: HRK 68 million), or HRK 61 million (2017: HRK 59 million), for principal and interest for liabilities from court cases, which management estimates to be sufficient. These amounts represent the best estimate of the Group for losses in court disputes, although the actual loss on the Group's court litigation may be significantly different. It is not practical for the management to assess the financial impact of changes in assumptions on the basis of which management estimates the need for reservations.

g) Pension insurance

In accordance with the legal framework, the Group provides an opportunity for members of voluntary and mandatory pension funds to transfer funds, when the conditions are met, into pension insurance company of their choice. Raiffeisen mirovinsko osiguravajuće društvo d.d. is currently the only pension insurance company in Croatia. The pension company pays out pensions, in accordance with the Act on Pension Insurance Companies and conditions of concluded pension contracts under mandatory and voluntary pension insurance. Pensions are paid from the assets covering technical provisions calculated by the certified actuary of the pension insurance company and in accordance with the good actuarial practice and law. The Management believes that the calculated technical provisions are sufficient.

h) Deferred taxes

Deferred taxes are recognised in respect of tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Management believes that the recognised deferred tax assets are completely recoverable.

i) Classification of lease contracts

The Group is the lessor in operating and finance leases. Lease where the Group as lessor transfer substantially all the risks and rewards to the lessee than the contract is classified as finance lease. All other leases are classified as operating lease and included in property and equipment under operating leases at cost net of accumulated depreciation. The requirements of IAS 17 Leases are taken into consideration to determine whether lease should be classified as finance of operating lease.

j) Determination of control

In accordance with requirements of IFRS 10 Consolidated Financial Statements, the Group regularly reassess whether they have control over significant activities of debtors in financial difficulties which are unable to regularly service its liabilities to the Group. The Group concluded in 2018 that there are no debtors which should be consolidated, which is consistent with the conclusion reached in 2017.

k) Impairment of investments in subsidiaries

The Bank has estimated that the investment in subsidiary Raiffeisen Factoring d.o.o. impaired due to significant credit losses incurred in factoring transactions with members of Agrokor Group under extraordinary administration and its economically-linked suppliers, and a decrease in the volume of factoring contracts. Total impairment losses amounted to HRK 297 million (2017: HRK 268 million) in the separate financial statements of the Bank. The management also impairment the investment in Raiffeisen Consulting for HRK 9 million. Management believes that other investments in subsidiaries are fully recoverable.

6. Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which are subject to risks and rewards that are different from those of other segments. Limited segment information is presented in respect of the Group's business segments. The primary format of business segments is based on the Bank's management and internal reporting structure.

Business segments

The Group comprises the following main business segments:	
Corporate Banking	Includes loans, deposits and other transactions and balances with corporate customers, and leasing activities at Group level;
Retail Banking	Includes loans, deposits and other transactions and balances with retail customers;
Treasury	Undertakes the Group's funding and centralised risk management activities through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities;
Asset management	Includes management of investment and pension funds under Group management;
Shared services	Undertakes Group property management activities and centralised advertising and marketing services for the Group.

6. Segment reporting (continued)

2018 Group HRK millions	Corporate	Retail	Treasury	Asset management	Shared services	Unallocated	Total 2018
Net interest income	216	487	124	24	22	–	873
Net fee and commission income	163	126	2	169	3	–	463
Trading and other income	170	23	45	200	14	16	468
Operating income	**549**	**636**	**171**	**393**	**39**	**16**	**1,804**
Operating expenses	(311)	(458)	(80)	(280)	(41)	(63)	(1,233)
Impairment losses	(118)	(108)	4	–	1	–	(221)
Provisions for liabilities and charges	(17)	(3)	–	–	–	(2)	(22)
Operating expenses	**(446)**	**(569)**	**(76)**	**(280)**	**(40)**	**(65)**	**(1,476)**
Profit/(loss) before tax	**103**	**67**	**95**	**113**	**(1)**	**(49)**	**328**
Income tax expense	–	–	–	–	–	(45)	(45)
Profit/(loss) for the year	**103**	**67**	**95**	**113**	**(1)**	**(94)**	**283**
Segment assets	6,897	9,285	14,074	684	1,102	1,307	33,349
Unallocated assets	–	–	–	–	–	1,816	1,816
Total assets	**6,897**	**9,285**	**14,074**	**684**	**1,102**	**3,123**	**35,165**
Segment liabilities	12,856	13,786	1,945	524	1,085	463	30,659
Equity	–	–	–	–	–	4,506	4,506
Total equity and liabilities	**12,856**	**13,786**	**1,945**	**524**	**1,085**	**4,969**	**35,165**

6. Segment reporting (continued)

2017 Group HRK millions	Corporate	Retail	Treasury	Asset management	Shared services	Unallocated	Total 2017
Net interest income	243	517	106	24	23	–	913
Net fee and commission income	161	121	15	168	4	–	469
Trading and other income	214	27	70	162	19	–	492
Operating income	**618**	**665**	**191**	**354**	**46**	**–**	**1,874**
Operating expenses	(377)	(477)	(66)	(242)	(35)	(15)	(1,212)
Impairment losses	(431)	44	–	–	1	–	(386)
Provisions for liabilities and charges	10	6	–	–	–	(2)	14
Operating expenses	**(798)**	**(427)**	**(66)**	**(242)**	**(34)**	**(17)**	**(1,584)**
Profit/(loss) before tax	**(180)**	**238**	**125**	**112**	**12**	**(17)**	**290**
Income tax expense	–	–	–	–	–	(102)	(102)
Profit/(loss) for the year	**(180)**	**238**	**125**	**112**	**12**	**(119)**	**188**
Segment assets	8,085	9,300	12,931	624	1,178	–	32,118
Unallocated assets	–	–	–	–	–	2.060	2,060
Total assets	**8,085**	**9,300**	**12,931**	**624**	**1,178**	**2,060**	**34,178**
Segment liabilities	11,354	13,368	2,917	472	1,158	224	29,493
Equity	–	–	–	–	–	4,685	4,685
Total equity and liabilities	**11,354**	**13,368**	**2,917**	**472**	**1,158**	**4,909**	**34,178**

6. Segment reporting (continued)

2018 Bank HRK millions	Corporate	Retail	Treasury	Unallocated	Total
Net interest income	199	487	124	–	810
Net fee and commission income	171	126	2	–	299
Trading and other income	81	23	124	16	244
Operating income	**451**	**636**	**250**	**16**	**1,353**
Operating expenses	(283)	(458)	(80)	(63)	(884)
Impairment losses	(109)	(108)	4		(213)
Provisions for liabilities and charges	(12)	(3)	–	(2)	(17)
Operating expenses	**(404)**	**(569)**	**(76)**	**(65)**	**(1,114)**
Profit/(loss) before tax	**47**	**67**	**174**	**(49)**	**239**
Income tax expense	–	–	–	(20)	(20)
Profit/(loss) for the year	**47**	**67**	**174**	**(69)**	**219**
Segment assets	6,652	9,285	14,074	1,307	31,318
Unallocated assets	–	–	–	1,311	1,311
Total assets	**6,652**	**9,285**	**14,074**	**2,618**	**32,629**
Segment liabilities	12,209	13,786	1,945	463	28,403
Equity	–	–	–	4,226	4,226
Total equity and liabilities	**12,209**	**13,786**	**1,945**	**4,689**	**32,629**

2017 Bank HRK millions	Corporate	Retail	Treasury	Unallocated	Total
Net interest income	233	517	106	–	856
Net fee and commission income	173	121	15	–	309
Trading and other income	105	27	142	–	274
Operating income	**511**	**665**	**263**	**–**	**1,439**
Operating expenses	(280)	(477)	(66)	(282)	(1,105)
Impairment losses	83	44	–	–	127
Provisions for liabilities and charges	10	6	–	(2)	14
Operating expenses	**(187)**	**(427)**	**(66)**	**(284)**	**(964)**
Profit/(loss) before tax	**324**	**238**	**197**	**(284)**	**475**
Income tax expense	–	–	–	(79)	(79)
Profit/(loss) for the year	**324**	**238**	**197**	**(363)**	**396**
Segment assets	7,926	9,300	12,931	–	30,157
Unallocated assets				1,222	1,222
Total assets	**7,926**	**9,300**	**12,931**	**1,222**	**31,379**
Segment liabilities	10,412	13,368	2,917	224	26,921
Equity	–	–	–	4,458	4,458
Total equity and liabilities	**10,412**	**13,368**	**2,917**	**4,682**	**31,379**

7. Financial assets and financial liabilities

A. Classification of financial assets and financial liabilities

Classification of financial assets and financial liabilities is described in accounting policies in note 4.
The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

2018 Group HRK Millions	Note	Mandatory at FVTPL	Designated at FVTPL	FVOCI – debt instruments	FVOCI – equity instruments	Amortised cost	Total carrying amount
Financial assets							
Cash and current accounts with banks	8	–	–	–	–	5,306	5,306
Obligatory reserve with the Croatian National Bank	9	–	–	–	–	1,909	1,909
Financial assets at fair value through profit or loss	10	829	704	–	–	–	1,533
Placements with and loans to other banks	11						
– measured at amortised cost		–	–	–	–	1,532	1,532
Loans from and advances to customers	12						
– measured at amortised cost		–	–	–	–	17,463	17,463
Investment securities	13						
– measured at fair value		–	–	5,262	33	–	5,295
– measured at amortised cost		–	–	–	–	535	535
Total financial assets		**829**	**704**	**5,262**	**33**	**26,745**	**33,573**
Financial liabilities							
Financial liabilities at fair value through profit or loss	19	40	–	–	–	–	40
Deposits from banks	20	–	–	–	–	589	589
Deposits from companies and other similar entities	21	–	–	–	–	11,384	11,384
Deposits from individuals	22	–	–	–	–	14,849	14,849
Borrowings	23	–	–	–	–	1,914	1,914
Subordinated liabilities	26	–	–	–	–	822	822
Total financial liabilities		**40**	**–**	**–**	**–**	**29,558**	**29,598**

Note: amounts in tables in note 7 are presented net of relating impairment losses, and consequently certain individual items cannot be directly linked to the notes, but only total amounts.

7. Financial assets and financial liabilities (continued)

A. Classification of financial assets and financial liabilities (continued)

2018 Bank HRK Millions	Note	Mandatory at FVTPL	Designated at FVTPL	FVOCI - debt instruments	FVOCI - equity instruments	Amortised cost	Total carrying amount
Financial assets							
Cash and current accounts with banks	8	–	–	–	–	5,298	5,298
Obligatory reserve with the Croatian National Bank	9	–	–	–	–	1,909	1,909
Financial assets at fair value through profit or loss	10	831	188	–	–	–	1,019
Placements with and loans to other banks	11						
– measured at fair value		35	–	–	–	–	35
– measured at amortised cost		–	–	–	–	1,508	1,508
Loans from and advances to customers	12						
– measured at amortised cost		–	–	–	–	16,099	16,099
Investment securities	13						
– measured at fair value		–	–	5,024	33	–	5,057
– measured at amortised cost		–	–	–	–	252	252
Total financial assets		**866**	**188**	**5,024**	**33**	**25,066**	**31,177**
Financial liabilities							
Financial liabilities at fair value through profit or loss	19	40	–	–	–	–	40
Deposits from banks	20	–	–	–	–	673	673
Deposits from companies and other similar entities	21	–	–	–	–	11,597	11,597
Deposits from individuals	22	–	–	–	–	13,783	13,783
Borrowings	23	–	–	–	–	1,004	1,004
Subordinated liabilities	26	–	–	–	–	822	822
Total financial liabilities		**40**	**–**	**–**	**–**	**27,879**	**27,919**

7. Financial assets and financial liabilities (continued)

A. Classification of financial assets and financial liabilities (continued)

2017 Group HRK Millions	Note	Trading	Designated at FVTPL	Held to maturity	Loans and receivables	Available for sale	Other amortised cost	Total
Financial assets								
Cash and current accounts with banks	8	–	–	–	4,708	–	–	4,708
Obligatory reserve with the Croatian National Bank	9	–	–	–	1,739	–	–	1,739
Financial assets at fair value through profit or loss	10	526	425	–	–	–	–	951
Placements with and loans to other banks	11							
– measured at amortised cost		–	–	–	894	–	–	894
Loans from and advances to customers	12							
– measured at amortised cost		–	–	–	17,745	–	–	17,745
Investment securities	13							
– measured at fair value		–	–	–	–	5,937	–	5,937
– measured at amortised cost		–	–	279	–	–	–	279
Total financial assets		**526**	**425**	**279**	**25,086**	**5,937**	**–**	**32,253**
Financial liabilities								
Financial liabilities at fair value through profit or loss	19	59	–	–	–	–	–	59
Deposits from banks	20	–	–	–	–	–	1,056	1,056
Deposits from companies and other similar entities	21	–	–	–	–	–	9,549	9,549
Deposits from individuals	22	–	–	–	–	–	14,231	14,231
Borrowings	23	–	–	–	–	–	2,572	2,572
Subordinated liabilities	26	–	–	–	–	–	832	832
Total financial liabilities		**59**	**–**	**–**	**–**	**–**	**28,240**	**28,299**

7. Financial assets and financial liabilities (continued)

A. Classification of financial assets and financial liabilities (continued)

2017 Bank HRK Millions	Note	Trading	Designated at FVTPL	Held to maturity	Loans and receivables	Available for sale	Other amortised cost	Total
Financial assets								
Cash and current accounts with banks	8	–	–	–	4,707	–	–	4,707
Obligatory reserve with the Croatian National Bank	9	–	–	–	1,739	–	–	1,739
Financial assets at fair value through profit or loss	10	532	41	–	–	–	–	573
Placements with and loans to other banks	11							
– measured at amortised cost		–	–	–	905	–	–	905
Loans from and advances to customers	12							
– measured at amortised cost		–	–	–	16,453	–	–	16,453
Investment securities	13							
– measured at fair value		–	–	–	–	5,617	–	5,617
Total financial assets		**532**	**41**		**23,804**	**5,617**	**–**	**29,994**
Financial liabilities								
Financial liabilities at fair value through profit or loss	19	61	–	–	–	–	–	61
Deposits from banks	20	–	–	–	–	–	1,093	1,093
Deposits from companies and other similar entities	21	–	–	–	–	–	9,817	9,817
Deposits from individuals	22	–	–	–	–	–	13,203	13,203
Borrowings	23	–	–	–	–	–	1,237	1,237
Subordinated liabilities	26	–	–	–	–	–	832	832
Total financial liabilities		**61**	**–**	**–**	**–**	**–**	**26,182**	**26,243**

7. Financial assets and financial liabilities (continued)

B. Classification of financial assets and financial liabilities at 1 January 2018

The following table shows the original categories in accordance with IAS 39 and under IFRS 9 for financial assets and financial liabilities as at 1 January 2018.

2018 Group HRK millions	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount	New carrying amount
Financial assets					
Cash and current accounts with banks	8	Loans and receivables	Amortised cost	4,708	4,716
Obligatory reserve with the Croatian National Bank	9	Loans and receivables	Amortised cost	1,739	1,742
Financial assets at fair value through profit or loss – trading	10	FVTPL	FVTPL (mandatory)	526	526
Financial assets at fair value through profit or loss – designated	10	FVTPL (designated)	FVTPL (designted)	425	505
Placements with and loans to other banks	11	Loans and receivables	Amortised cost	894	896
Loans from and advances to customers	12	Loans and receivables	Amortised cost	17,745	17,669
Investment securities – debt	13	Available for sale	FVOCI	5,906	5,826
Investment securities – equity	13	Available for sale	FVOCI	31	31
Investment securities – debt	13	Held to maturity	Amortised cost	279	281
Total financial assets				**32,253**	**32,192**

The difference between original and new values in the amount of HRK 10 million, as included in the Statement of changes in equity, due to provisions for off balance sheet items.

INTRODUCTION
2018 BUSINESS DEVELOPMENTS
RBI AT A GLANCE
FINANCIAL STATEMENTS
CONTACTS

7. Financial assets and financial liabilities (continued)

B. Classification of financial assets and financial liabilities at 1 January 2018 (continued)

2018 Group HRK millions	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount	New carrying amount
Financial liabilities					
Financial liabilities at fair value through profit or loss	19	FVTPL	FVTPL (trading)	59	59
Deposits from banks	20	Other amortised cost	Amortised cost	1,056	1,056
Deposits from companies and other similar entities	21	Other amortised cost	Amortised cost	9,549	9,549
Deposits from individuals	22	Other amortised cost	Other amortised cost	14,231	14,231
Borrowings	23	Other amortised cost	Other amortised cost	2,572	2,572
Subordinated liabilities	26	Other amortised cost	Other amortised cost	832	832
Total financial liabilities				**28,299**	**28,299**

7. Financial assets and financial liabilities (continued)

B. Classification of financial assets and financial liabilities at 1 January 2018 (continued)

2018 Bank HRK millions	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount	New carrying amount
Financial assets					
Cash and current accounts with banks	8	Loans and receivables	Amortised cost	4,707	4,715
Obligatory reserve with the Croatian National Bank	9	Loans and receivables	Amortised cost	1,739	1,742
Financial assets at fair value through profit or loss – trading	10	FVTPL	FVTPL (trading)	532	532
Financial assets at fair value through profit or loss - designated	10	FVTPL (designated)	FVTPL (designated)	41	41
Placements with and loans to other banks	11	Loans and receivables	Amortised cost	36	35
Placements with and loans to other banks	11	Loans and receivables	Amortised cost	869	871
Loans from and advances to customers	12	Loans and receivables	Amortised cost	16,453	16,389
Investment securities - debt	13	Available for sale	FVOCI	5,586	5,586
Investment securities - equity	13	Available for sale	FVOCI	31	31
Total financial assets				29,994	29,942

The difference between original and new values in the amount of HRK 10 million, as included in the Statement of changes in equity, due to provisions for off balance sheet items.

7. Financial assets and financial liabilities (continued)

B. Classification of financial assets and financial liabilities at 1 January 2018 (continued)

2018 Bank HRK millions	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount	New carrying amount
Financial liabilities					
Financial liabilities at fair value through profit or loss	19	FVTPL	FVTPL (trading)	61	61
Deposits from banks	20	Other amortised cost	Amortised cost	1,093	1,093
Deposits from companies and other similar entities	21	Other amortised cost	Amortised cost	9,817	9,817
Deposits from individuals	22	Other amortised cost	Amortised cost	13,203	13,203
Borrowings	23	Other amortised cost	Amortised cost	1,237	1,237
Subordinated liabilities	26	Other amortised cost	Amortised cost	832	832
Total financial liabilities				**26,243**	**26,243**

The Group accounting policies on classification of financial instruments under IFRS 9 are set out in note 4. The application of these policies resulted in the reclassifications set out in the table above and explained below.

a) Certain loans to banks held by the investment banking business are classified under IFRS 9 as mandatorily measured at FVTPL because they are held within a business model in which they are managed and their performance is evaluated on a fair value basis. Before the adoption of IFRS 9, these loans and advances to customers were classified as loans and receivables and were measured at amortised cost.

b) Certain debt securities are held in a special portfolio for long term yield. These securities may be sold; however, such sale is not expected to be more than infrequent. The Group considers that these securities are held within a business model which aim is to hold the assets to collect the contractual cash flows. Such assets are classified as measured at amortised cost.

c) Certain debt securities are held by the Group Central Treasury in separate portfolios to meet everyday liquidity needs. The Group Central Treasury seeks to minimise the costs of managing these liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Group considers that under IFRS 9 these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

d) Certain non-trading debt securities are held by the Group Central Treasury in separate portfolios and are managed with an objective of realising cash flows through sale. The Group primarily focuses on fair value information and uses that information to assess the securities' performance and to make decisions. In addition, certain asset-backed securities have contractual cash flows that are not SPPI. These assets are therefore measured at FVTPL under IFRS 9.

e) Certain equity investments held by the Group for strategic purposes have been designated under IFRS 9 as at FVOCI.

7. Financial assets and financial liabilities (continued)

B. Classification of financial assets and financial liabilities at 1 January 2018 (continued)

The following table reconciles the carrying amounts at the date of the first adoption of the Decision on classification, on 1 January 2018.

2018 Group HRK millions	Carrying amount at 31 December 2017	Reclassification	Remeasurement	Carrying amount at 1 January 2018
Financial assets				
Amortised cost				
Cash and current accounts with banks				
– Opening balance	4,708			
– Remeasurement			8	
Closing balance				4,716
Obligatory reserve with the Croatian National Bank				
– Opening balance	1,739			
– Remeasurement			3	
Closing balance				1,742
Placements with and loans to other banks				
– Opening balance	894			
– Remeasurement			2	
Closing balance				896
Loans from and advances to customers				
– Opening balance	17,745			
– Remeasurement			(76)	
Closing balance				17,669
Investment securities – debt				
– From held to maturity		279		
– Remeasurement			2	
Closing balance				281
Total amortised cost	**25,086**	**279**	**(61)**	**25,304**
Held to maturity				
Investment securities				
– Opening balance	279			
– To amortised cost		(279)		
Closing balance				–
Total held to maturity	**279**	**(279)**		**–**
Available for sale				
Investment securities				
– Opening balance	5,937			
– To FVTPL			(80)	
– To FVOCI			(5,857)	
Closing balance				–
Total available for sale	**5,937**	**(5,937)**		**–**

7. Financial assets and financial liabilities (continued)

B. Classification of financial assets and financial liabilities at 1 January 2018 (continued)

2018 Group HRK millions	Carrying amount at 31 December 2017	Reclassification	Remeasurement	Carrying amount at 1 January 2018
Fair value through other comprehensive income – debt				
Investment securities – Opening balance – From available for sale	– 	 5,826		
Closing balance				5,826
Fair value through other comprehensive income – equity				
Investment securities – Opening balance – From available for sale		 31		
Closing balance				31
Total fair value through other comprehensive income	**–**	**5,857**	**–**	**5,857**
Fair value through profit or loss Financial assets at fair value through profit or loss – trading	526			526
Financial assets at fair value through profit or loss – designated – Opening balance – From available for sale	425	80		
Closing balance				505
Total fair value through profit or loss	**951**	**80**	**–**	**1,031**
Total	**32,253**	**–**	**(61)**	**32,192**

2018 Group HRK millions	Carrying amount at 31 December 2017	Reclassification	Remeasurement	Carrying amount at 1 January 2018
Financial liabilities **Amortised cost**				
Deposits from banks	1,056	–	–	1,056
Deposits from companies and other similar entities	9,549	–	–	9,549
Deposits from individuals	14,231	–	–	14,231
Borrowings	2,572	–	–	2,572
Subordinated liabilities	832	–	–	832
Total amortised cost	**28,240**	**–**	**–**	**28,240**
Fair value through profit or loss Financial assets at fair value through profit or loss – trading	59			59
Total fair value through profit or loss	**59**	**–**	**–**	**59**
Total	**28,299**	**–**	**–**	**28,299**

7. Financial assets and financial liabilities (continued)

B. Classification of financial assets and financial liabilities at 1 January 2018 (continued)

2018 Bank HRK millions	Carrying amount at 31 December 2017	Reclassification	Remeasurement	Carrying amount at 1 January 2018
Financial assets **Amortised cost**				
Cash and current accounts with banks				
– Opening balance	4,707			
– Remeasurement			8	
Closing balance				4,715
Obligatory reserve with the Croatian National Bank				
– Opening balance	1,739			
– Remeasurement			3	
Closing balance				1,742
Placements with and loans to other banks				
– Opening balance	905			
– Remeasurement			2	
– To FVTPL		(36)		
Closing balance				871
Loans from and advances to customers				
– Opening balance	16,453			
– Remeasurement			(64)	
Closing balance				16,389
Total amortised cost	**23,804**	**(36)**	**(51)**	**23,717**
Available for sale				
Investment securities				
– Opening balance	5,617			
– To FVOCI		(5,617)		
Closing balance				–
Total available for sale	**5,617**	**(5,617)**		**–**
Fair value through other comprehensive income – debt				
Investment securities				
– Opening balance	–			
– From available for sale		5,586		
Closing balance				5,586
Fair value through other comprehensive income – equity				
Investment securities				
– Opening balance	–			
– From available for sale		31		
Closing balance				31
Total fair value through other comprehensive income		**5,617**		**5,617**

7. Financial assets and financial liabilities (continued)

B. Classification of financial assets and financial liabilities at 1 January 2018 (continued)

2018 Bank HRK millions	Carrying amount at 31 December 2017	Reclassification	Remeasurement	Carrying amount at 1 January 2018
Fair value through profit or loss				
Placements with and loans to other banks				
– Opening balance	–			
– From amortised cost		36		
– Remeasurement			(1)	
Closing balance				35
Financial assets at fair value through profit or loss – trading	532	–	–	532
Financial assets at fair value through profit or loss – designated	41	–	–	41
Total fair value through profit or loss	**573**	**36**	**(1)**	**608**
Total	**29,994**	**–**	**(52)**	**29,942**

2018 Bank HRK millions	Carrying amount at 31 December 2017	Reclassification	Remeasurement	Carrying amount at 1 January 2018
Financial liabilities **Amortised cost**				
Deposits from banks	1,093	–	–	1,093
Deposits from companies and other similar entities	9,817	–	–	9,817
Deposits from individuals	13,203	–	–	13,203
Borrowings	1,237	–	–	1,237
Subordinated liabilities	832	–	–	832
Total amortised cost	**26,182**	**–**	**–**	**26,182**
Fair value through profit or loss				
Financial assets at fair value through profit or loss – trading	61	–	–	61
Total fair value through profit or loss	**61**	**–**	**–**	**61**
Total	**26,243**	**–**	**–**	**26,243**

Reclassification of financial assets and financial liabilities under IAS 39 to financial assets and financial liabilities under IFRS 9 did not have impact on the stated carrying amounts of financial assets and financial liabilities under IFRS 9, except:

- Reclassification of part of the placements and loans to other banks that were measured at amortised cost to placements and loans to other banks measured at fair value through profit or loss (mandatory) resulted with increase of value of such placements in the amount of HRK 1 million at 1 January 2018 to profit due to its valuation to fair value at that time.

7. Financial assets and financial liabilities (continued)

B. Classification of financial assets and financial liabilities at 1 January 2018 (continued)

The following table summarises the impact of first adoption of the Decision on classification to opening balance of retained earnings and fair value reserve at 1 January 2018, while it did not have any impact on other components of equity.

Group	Impact at 1 January 2018 HRK millions
Fair value reserve	
Closing balance (31 December 2017)	48
Reclassification	(9)
Recognition of expected credit losses under the Decision on classification	46
Deferred tax	2
Opening balance (1 January 2018)	87
Retained earnings	
Closing balance (31 December 2017)	822
Reclassification	9
Recognition of expected credit losses under the Decision on classification	(97)
Deferred tax	(2)
Opening balance (1 January 2018)	732

Bank	Impact at 1 January 2018 HRK millions
Fair value reserve	
Closing balance (31 December 2017)	33
Recognition of expected credit losses under the Decision on classification	44
Opening balance (1 January 2018)	77
Retained earnings	
Closing balance (31 December 2017)	618
Recognition of expected credit losses under the Decision on classification	(86)
Opening balance (1 January 2018)	532

7. Financial assets and financial liabilities (continued)

B. Classification of financial assets and financial liabilities at 1 January 2018 (continued)

The following table reconciles
- the closing impairment allowance for financial assets and provisions for liabilities and charges in accordance with the old regulation, at 31 December 2017, i
- the opening balance of expected credit losses under the Decision on classification, at 1 January 2018.

2018 Group HRK millions	31 December 2017	Reclassification	Remeasurement	1 January 2018
Classification: Loans and receivables and held to maturity securities under IAS 39 / classification: financial assets at amortised cost under IFRS 9 (including cash and amounts at banks, obligatory reserve with the CNB, placements wth and loans to other banks, loans from and advances to customers)	1,333	–	61	1,394
Classification: debt securities available for sale under IAS 39 / classification: financial assets at FVOCI under IFRS 9	–	–	46	46
Total	**1,333**		**107**	**1,440**
Commitments and contingencies	93	–	(10)	83
Total	**93**	**–**	**(10)**	**83**

2018 Group HRK millions	31 December 2017	Reclassification	Remeasurement	1 January 2018
Classification: Loans and receivables and held to maturity securities under IAS 39 / classification: financial assets at amortised cost under IFRS 9 (including cash and amounts at banks, obligatory reserve with the CNB, placements wth and loans to other banks, loans from and advances to customers)	1,563	–	51	1,614
Classification: debt securities available for sale under IAS 39 / classification: financial assets at FVOCI under IFRS 9	–	–	44	44
Total	**1,563**	**–**	**95**	**1,658**
Commitments and contingencies	93	–	(10)	83
Total	**93**	**–**	**(10)**	**83**

8. Cash and current accounts with banks

	Group 2018 HRK millions	Group 2017 HRK millions	Bank 2018 HRK millions	Bank 2017 HRK millions
Cash in hand	1,049	804	1,049	804
Giro account with the Croatian National Bank	4,194	3,851	4,194	3,851
Current accounts with other banks				
– with parent bank	13	10	13	9
– with other Raiffeisen Bank International AG ("the RBI") group banks	2	4	1	4
– with other banks	83	78	75	78
	5,341	**4,747**	**5,332**	**4,746**
Impairment allowance	(35)	(39)	(34)	(39)
	5,306	**4,708**	**5,298**	**4,707**

a) Movement in impairment allowance for cash and current accounts with banks

	Group 2018 HRK millions	Group 2017 HRK millions	Bank 2018 HRK millions	Stage 1 and 2 Bank 2017 HRK millions
At 31 December	**39**	**36**	**39**	**36**
Effect of adoption of the Decision on classification at 1 January 2018	(8)	–	(8)	–
At 1 January	31	36	31	36
Net charge recognised in profit or loss (Note 34)	4	3	3	3
At 31 December	**35**	**39**	**34**	**39**

9. Obligatory reserve with the Croatian National Bank

	Group 2018 HRK millions	Group 2017 HRK millions	Bank 2018 HRK millions	Bank 2017 HRK millions
Obligatory reserve in domestic currency	1,924	1,757	1,924	1,757
	1,924	**1,757**	**1,924**	**1,757**
Impairment allowance	(15)	(18)	(15)	(18)
	1,909	**1,739**	**1,909**	**1,739**

a) Movement in impairment allowance for obligatory reserve with the Croatian National Bank

	Group 2018 HRK millions	Group 2017 HRK millions	Bank 2018 HRK millions	Stage 1 and 2 Bank 2017 HRK millions
At 31 December	18	20	18	20
Effect of adoption of the Decision on classification at 1 January 2018	(3)	–	(3)	–
At 1 January	15	20	15	20
Net release recognised in profit or loss (Note 34)	–	(2)	–	(2)
At 31 December	**15**	**18**	**15**	**18**

The CNB determines the requirement for banks to calculate obligatory reserve which is required to be deposited with the CNB and maintained in the form of liquid assets. The obligatory reserve requirement as at 31 December 2018 represented 12% (2017:12%) of relevant HRK and foreign currency deposits and borrowings.

As at 31 December 2018 the required rate of HRK denominated part of the obligatory reserve to be deposited with the CNB amounted to 70% (2017:70%), while the remaining 30% (2017:30%) had to be maintained in the form of liquid receivables. 75% (2017:75%) of foreign currency obligatory reserve was required to be held in HRK, and this is added to the HRK portion of the obligatory reserve.

Banks was required to maintain 2% of their foreign currency reserve requirement, as the average daily balance of funds on their own foreign currency settlement accounts with the CNB.

10. Financial assets at fair value through profit or loss

	Group 2018 HRK millions	Group 2017 HRK millions	Bank 2018 HRK millions	Bank 2017 HRK millions
Financial assets mandatorily measured at fair value through profit or loss: Non derivative trading assets:				
Debt securities:				
– Domestic government bonds, listed	248	243	248	243
– Foreign government bonds, listed	121	–	121	–
– Treasury bills issued by the Ministry of Finance	384	233	384	233
– Bonds issued by banks, listed	–	–	–	–
– Securities issued by companies, listed	19	14	19	14
Accrued interest	2	2	2	2
	774	492	774	492
Equity securities, listed	5	1	5	1
Derivative trading assets:				
Positive fair value of OTC derivative instruments	49	29	51	34
Positive fair value of OTC spot transactions	–	4	–	4
Accrued interest	1	–	1	1
	50	33	52	39
Total financial assets mandatorily measured at fair value through profit or loss	**829**	**526**	**831**	**532**
Financial assets designated at fair value through profit or loss				
Debt securities:				
– Domestic government bonds, listed	352	272	–	–
– Bonds issued by banks, listed	58	4	51	4
– Securities issued by companies, listed	159	59	135	36
– Treasury bills issued by the Ministry of Finance	70	68	–	–
Accrued interest	7	6	2	1
	646	409	188	41
Equity securities	1	2	–	–
Investments in investment funds managed by related and third parties	57	14	–	–
Total financial assets designated at fair value through profit or loss	**704**	**425**	**188**	**41**
	1,533	951	1,019	573

Investment in treasury bills issued by the Republic of Croatia Ministry of Finance in the amount of HRK 70 million (2017: HRK 68 million) in the Group represent the guarantee deposit in accordance with the Law on Mandatory Pension Funds and Law on Voluntary Pension Funds.

11. Placements with and loans to other banks

	Group 2018 HRK millions	Group 2017 HRK millions	Bank 2018 HRK millions	Bank 2017 HRK millions
Loans and deposits at amortised cost				
– Loans	46	41	46	78
– Deposits	1,498	862	1,473	836
	1,544	903	1,519	914
Loans, mandatorily measured at fair value through profit or loss	–	–	36	–
	1,544	**903**	**1,555**	**914**
Impairment allowance	(12)	(9)	(12)	(9)
	1,532	**894**	**1,543**	**905**

Group			2018.			2017.
HRK millions	Stage 3	Stage 1 and 2	Total	Identified losses	Unidentified losses	Total
At 31 December	-	9	9	5	17	22
Effect of adoption of the Decision on classification at 1 January 2018	–	(2)	(2)	–	–	–
At 1 January	–	7	7	5	17	22
Net charge/(release) recognised in profit or loss (Note 34)	–	5	5	–	(8)	(8)
Write offs	–	–	–	(5)	–	(5)
At 31 December	–	12	12	–	9	9

Bank			2018.			2017.
HRK millions	Stage 3	Stage 1 and 2	Total	Identified losses	Unidentified losses	Total
At 31 December	–	9	9	5	16	21
Effect of adoption of the Decision on classification at 1 January 2018	–	(2)	(2)	–	–	–
At 1 January	–	7	7	5	16	21
Net charge/(release) recognised in profit or loss (Note 34)	–	5	5	–	(7)	(7)
Write offs	–	–	–	(5)	–	(5)
At 31 December	–	12	12	–	9	9

12. Loans from and advances to customers

	Group 2018 HRK millions	Group 2017 HRK millions	Bank 2018 HRK millions	Bank 2017 HRK millions
Loans to companies and similar entities at amortised cost				
– denominated in domestic currency	1,904	2,560	2,038	2,103
– denominated in or linked to foreign currency	5,162	5,709	5,176	5,761
Loans to individuals				
– denominated in domestic currency	6,536	6,173	6,437	6,080
– denominated in or linked to foreign currency	4,203	4,536	3,580	3,940
Finance lease receivables, denominated in or linked to foreign currency	829	749	–	–
– accrued interest	70	94	69	83
– deferred income	(49)	(55)	(47)	(53)
	18,655	**19,766**	**17,253**	**17,914**
Impairment allowance	(1,192)	(2,021)	(1,154)	(1,461)
	17,463	**17,745**	**16,099**	**16,453**

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

Group			2018.			2017.
HRK millions	Stage 3	Stage 1 and 2	Total	Identified losses	Unidentified losses	Total
At 31 December	**1,817**	**204**	**2,021**	**2,500**	**218**	**2,718**
Effect of adoption of the Decision on classification:						
– increase of impairment allowance	26	62	88	–	–	–
– effect of transfer of regular suspended interest to the balance sheet	(12)	–	(12)	–	–	–
	14	62	76	–	–	–
At 1 January	**1,831**	**266**	**2,097**	**2,500**	**218**	**2,718**
Increase/(decrease) of impairment allowance	426	(38)	388	589	(14)	575
Amounts recovered during the year	(182)	–	(182)	(206)	–	(206)
Net charge/(release) in profit or loss (Note 34)	**244**	**(38)**	**206**	**383**	**(14)**	**369**
Net foreign exchange loss	(2)	(1)	(3)	(5)	-	(5)
Write offs and sale	(1,108)	-	(1,108)	(1,061)	-	(1,061)
At 31 December	**965**	**227**	**1,192**	**1,817**	**204**	**2,021**

12. Loans from and advances to customers (continued)

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

Bank			2018.			2017.
HRK millions	Stage 3	Stage 1 and 2	Total	Identified losses	Unidentified losses	Total
At 31 December	**1,266**	**195**	**1,461**	**2,412**	**199**	**2,611**
Effect of adoption of the Decision on classification:						
– increase of impairment allowance	17	59	76	–	–	–
– effect of transfer of regular suspended interest to the balance sheet	(12)	–	(12)	–	–	–
	5	59	64	–	–	–
At 1 January	**1,271**	**254**	**1,525**	**2,412**	**199**	**2,611**
Increase/(decrease) of impairment allowance	416	(38)	378	69	(4)	65
Amounts recovered during the year	(180)	–	(180)	(204)	–	(204)
Net charge/(release) in profit or loss (Note 34)	**236**	**(38)**	**198**	**(135)**	**(4)**	**(139)**
Net foreign exchange loss	(1)	–	(1)	(5)	–	(5)
Write offs and sale	(568)	–	(568)	(1,006)	–	(1,006)
At 31 December	**938**	**216**	**1,154**	**1,266**	**195**	**1,461**

During 2018 the Bank sold a part of its non performing loans to customers, with the gross value of HRK 690.3 million (2017: HRK 818.2 million) (of which loans to companies and similar entities amounted to HRK 372.6 million (2017: HRK 660.3 million) and loans to individuals amounted to HRK 317.7 million (2017: HRK 157.9 million), or net value of HRK 46.0 million (2017: HRK 94.0 million) (of which loans to companies and similar entities amounted to HRK 21.5 million (2017: HRK 93.6 million) and loans to individuals amounted to HRK 24.5 million (2017: HRK 0.4 million). The Bank realised a gain on this sale.

12. Loans from and advances to customers (continued)

b) Finance lease receivables

The Group acts as a lessor under finance leases, mainly of plant and equipment. The leases typically run for a period of one to seven years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease based on market related interest rates. The receivables are secured by the underlying assets. Loans from and advances to customers include the following finance lease receivables:

HRK millions	Group 2018	Group 2017
Gross investment in finance leases	891	806
Deferred fee income	(2)	(2)
Unearned finance income	(60)	(55)
Net investment in finance leases	**829**	**749**
Impairment losses	(10)	(21)
Net investment in finance leases	**819**	**728**

This disclosure is illustrative since there are no irrevocable leases.

HRK millions	Group 2018	Group 2017
Gross investment in finance lease, with remaining maturities		
Less than one year	308	298
More than one and less than five years	554	494
More than five years	29	14
	891	**806**

13. Investment securities

HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
Investment securities measured at amortised cost	535	–	252	–
Investment securities at fair value through other comprehensive income	5,295	–	5,057	–
Investment securities held to maturity	–	279	–	–
Investment securities available for sale	–	5,937	–	5,617
	5,830	**6,216**	**5,309**	**5,617**

13. Investment securities (continued)

HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
Investment securities measured at amortised cost				
Debt securities:				
– Domestic government bonds, listed	401	275	123	–
– Foreign government bonds, listed	130	–	130	–
Accrued interest	7	6	1	–
	538	**281**	**254**	**–**
Impairment allowance	(3)	(2)	(2)	–
Total investment securities measured at amortised cost	**535**	**279**	**252**	**–**

Stage 1 and 2 HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
At 1 January	**2**	**2**	**–**	**–**
Net charge to profit or loss (Note 34)	1	–	2	–
At 31 December	**3**	**2**	**2**	**–**

HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
Investment securities – gross value				
Debt securities:				
– Domestic government bonds, listed	1,697	1,917	1,485	1,621
– Bonds issued at fair value through other comprehensive income by banks, listed	1,436	1,135	1,436	1,135
– Foreign government bonds, listed	1,505	2,198	1,505	2,198
– Treasury bills issued by the Ministry of Finance	623	608	598	588
Accrued interest	43	48	40	44
	5,304	**5,906**	**5,064**	**5,586**
Impairment allowance	(42)	–	(40)	–
Debt securities:	5,262	5,906	5,024	5,586
Equity securities:				
– not listed	28	25	28	25
– listed	5	6	5	6
	33	**31**	**33**	**31**
Total investment securities at fair value through other comprehensive income	**5,295**	**5,937**	**5,057**	**5,617**

13. Investment securities (continued)

Stage 1 and 2 HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
At 1 January – adoption of the Decision of the classification	**46**	**–**	**44**	**–**
Net release to profit or loss (Note 34)	(4)	–	(4)	–
At 31 December	**42**	**–**	**40**	**–**

Government bonds and treasury bills issued by foreign government consist of financial instruments issued by Republic of Austria, Republic of France, Republic of Poland, United States of America, Republic of Slovenia and Republic of Ireland.

14. Investments in subsidiaries

The Group and the Bank had the following investments in subsidiaries, all incorporated in Croatia, as at 31 December 2018 and 31 December 2017:

HRK millions	Nature of business	Ownership 2018 %	Ownership 2017 %	Acquisition cost 2018	Impairment allowance 2018	Investments in subsidiaries 2018	Acquisition cost 2017	Impairment allowance 2017	Investments in subsidiaries 2017
Investment in subsidiaries									
Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.	Pension fund management	100	100	144	–	144	144	–	144
Raiffeisen stambena štedionica d.d.	Saving bank	100	100	56	–	56	56	–	56
Raiffeisen Consulting d.o.o.	Financial and consulting services	100	100	105	(9)	96	105	–	105
Raiffeisen Leasing d.o.o.	Leasing	100	100	57	–	57	57	–	57
Raiffeisen mirovinsko osiguravajuće društvo d.d.	Pension insurance	100	100	23	–	23	23	–	23
Raiffeisen Invest d.o.o.	Investment fund management	100	100	8	–	8	8	–	8
Raiffeisen Factoring d.o.o.	Factoring	100	100	336	(297)	39	270	(268)	2
Indirect holding									
Raiffeisen Bonus d.o.o.	Insurance and re–insurance intermediary	100	100	–	–	–	–	–	–
Total		**n/p**	**n/p**	**729**	**(306)**	**423**	**663**	**(268)**	**395**

14. Investments in subsidiaries (continued)

During 2017, the Bank increased the share capital of Raiffeisen Factoring d.o.o. in the amount of HRK 255 million to meet the regulatory requirements for minimum capital and reserves of factoring companies. Due to exposure to companies from Agrokor Group and economically-linked suppliers, the company realised a significant loss, and there was a significant fall in the volume of factoring operations, which consequently led the Bank to impair its investment in the amount of HRK 268 million.

In 2018, the Bank further increased the share capital of the company Raiffeisen Factoring d.o.o. in the amount of HRK 66 million. The company made significant losses on the basis of the write-offs of the receivables from Agrokor Group and the Bank made an additional impairment of HRK 29 million.

On 20 October 2018, the Management Board of the Bank issued a decision to terminate the factoring business in Raiffeisen Factoring, and the last contracted factoring contracts expired at the beginning of January 2019. After the expiration of the contract, the Management Board requested from the relevant regulator for factoring companies (HANFA) to withdraw the licence to factoring company, and consequently, HANFA issued its decision on withdrawal of the licence to factoring company on 22 February 2019.

This represented a condition for changing the activity and name of the company in Raiffeisen usluge d.o.o. and the Bank intends to merge Raiffeisen usluge d.o.o. by the end of 2019.

In 2018, the Bank also further impaired its investment in Raiffeisen Consulting in the amount of HRK 9 million. This adjustment relates to the valuation of a tangible asset, business premises which was valued by the earnings method.

15. Property, plant and equipment and investment property

Group 2018 HRK millions	Land and buildings	Equipment	Office furniture	Assets in operating lease	Investment property	Assets under construction	Total
Gross carrying amount							
At 1 January 2018	910	424	75	685	118	12	2,224
Additions	–	–	–	–	5	109	114
Disposals	–	(58)	(4)	(505)	(30)	–	(597)
Transfer into use	6	47	3	53	–	(109)	–
At 31 December 2018	**916**	**413**	**74**	**233**	**93**	**12**	**1,741**
Accumulated depreciation and impairment allowance							
At 1 January 2018	264	335	72	238	6	–	915
Charge for the year (Note 33)	16	29	2	40	2	–	89
Disposals and transfer	–	(58)	(4)	(183)	(5)	–	(250)
At 31 December 2018	**280**	**306**	**70**	**95**	**3**	**–**	**754**
Carrying amount							
At 1 January 2018	646	89	3	447	112	12	1,309
At 31 December 2018	**636**	**107**	**4**	**138**	**90**	**12**	**987**

15. Property, plant and equipment and investment property (continued)

Of which:

HRK millions	2018	2017
Property, plant and equipment	897	1,197
Investment property	90	112
Total	987	1,309

There were no capitalized borrowing costs related to the acquisition of property, plant and equipment during the previous and current year.
A building with the carrying amount of approximately HRK 209 million (2017: HRK 214 million) has been pledged to secure borrowings of the Group (Note 23).

Carrying value of land stated under the land and buildings, not subject to amortization amounted to HRK 53 million (2017: HRK 53 million).

Group 2017 HRK millions	Land and buildings	Equipment	Office furniture	Assets in operating lease	Investment property	Assets under construction	Total
Gross carrying amount							
At 1 January 2017	886	425	77	946	113	20	2,467
Additions	–	–	–	–	–	118	118
Disposals	–	(32)	(3)	(297)	–	–	(332)
Transfer to other assets	–	(3)	–	(12)	(14)	–	(29)
Transfer into use	24	34	1	48	19	(126)	–
At 31 December 2017	910	424	75	685	118	12	2,224
Accumulated depreciation and impairment allowance							
At 1 January 2017	249	344	74	301	3	–	971
Charge for the year (Note 33)	15	26	1	60	3	–	105
Disposals and transfer	–	(35)	(3)	(123)	–	–	(161)
At 31 December 2017	264	335	72	238	6	–	915
Carrying amount							
At 1 January 2017	637	81	3	645	110	20	1,496
At 31 December 2017	646	89	3	447	112	12	1,309

15. Property, plant and equipment and investment property (continued)

Future minimum lease payments under operating lease

The Group acts as a lessor under operating leases, mainly of plant and equipment. The leases typically run for a period of two to twenty years. Future minimum lease payments for operating lease (disclosure is only illustrative as there are no non-cancellable lease contracts) at 31 December 2018 were as follows:

HRK millions	Group 2018	Group 2017
Up to one year	37	79
More than one and less than five years	61	136
Over five years	–	2
	98	217

Bank 2018 HRK millions	Land and buildings	Equipment	Office furniture	Assets under construction	Total
Gross carrying amount					
At 1 January 2018	532	402	75	11	1,020
Additions	–	–	–	54	54
Disposals	–	(57)	(4)	–	(61)
Transfer into use	6	45	3	(54)	–
At 31 December 2018	538	390	74	11	1,013
Accumulated depreciation and impairment allowance					
At 1 January 2018	132	324	72	–	528
Charge for the year (Note 33)	10	27	1	–	38
Disposals and transfer	–	(57)	(3)	–	(60)
At 31 December 2018	142	294	70	–	506
Carrying amount					
At 1 January 2018	400	78	3	11	492
At 31 December 2018	396	96	4	11	507

15. Property, plant and equipment and investment property (continued)

Assets under construction relates to equipment at cost of HRK 11 million (2017: HRK 10 million), and additionally in 2017, HRK 1 million relate to office furniture. (2018:-)

There were no capitalised borrowing costs of acquisition of property, plant and equipment during the year (2017: -).

A book value of land stated under the land and buildings, not subject to amortization amounted to HRK 28 million (2017: HRK 28 million).

Bank 2017 HRK millions	Land and buildings	Equipment	Office furniture	Assets under construction	Total
Gross carrying amount					
At 1 January 2017	508	405	74	19	1,006
Additions	–	–	–	49	49
Disposals	–	(32)	–	–	(32)
Transfer to intangible assets	–	(3)	–	–	(3)
Transfer into use	24	32	1	(57)	–
At 31 December 2017	**532**	**402**	**75**	**11**	**1,020**
Accumulated depreciation and impairment allowance					
At 1 January 2017	123	334	71	–	528
Charge for the year (Note 33)	9	24	1	–	34
Transfer to intangible assets	–	(2)	–	–	(2)
Disposals	–	(32)	–	–	(32)
At 31 December 2017	**132**	**324**	**72**	**–**	**528**
Carrying amount					
At 1 January 2017	385	71	3	19	478
At 31 December 2017	**400**	**78**	**3**	**11**	**492**

16. Intangible assets

Group 2017 HRK millions	Goodwill	Leasehold improvement	Software	Assets under construction	Total
At 1 January 2018	27	211	648	6	892
Additions	–	–	–	63	63
Disposals	–	(10)	–	–	(10)
Transfer into use	–	12	49	(61)	–
At 31 December 2018	**27**	**213**	**697**	**8**	**945**
Accumulated amortisation					
At 1 January 2018	–	155	498	–	653
Charge for the year (Note 33)	–	9	36	–	45
Disposals	–	(9)	–	–	(9)
At 31 December 2018	**–**	**155**	**534**	**–**	**689**
Carrying amount					
At 1 January 2018	27	56	150	6	239
At 31 December 2018	**27**	**58**	**163**	**8**	**256**

Assets under construction mainly comprise software in the process of installation in the amount of HRK 7 million (2017: HRK 6 million).

Group 2017 HRK millions	Goodwill	Leasehold improvement	Software	Assets under construction	Total
Gross carrying amount					
At 1 January 2017	27	203	619	12	861
Additions	–	–	–	45	45
Disposals	–	–	(17)	–	(17)
Transfer from property, plant and equipment	–	–	3	–	3
Transfer into use	–	8	43	(51)	–
At 31 December 2017	**27**	**211**	**648**	**6**	**892**
Accumulated amortisation					
At 1 January 2017	–	146	475	–	621
Charge for the year (Note 33)	–	9	33	–	42
Transfer from property, plant and equipment	–	–	2	–	2
Disposals	–	–	(12)	–	(12)
At 31 December 2017	**–**	**155**	**498**	**–**	**653**
Carrying amount					
At 1 January 2017	27	57	144	12	240
At 31 December 2017	**27**	**56**	**150**	**6**	**239**

16. Intangible assets (continued)

Bank 2018 HRK millions	Leasehold improvement	Software	Assets under construction	Total
Gross carrying amount				
At 1 January 2018	200	597	5	802
Additions	–	–	61	61
Disposals	(10)	–	–	(10)
Transfer into use	12	47	(59)	–
At 31 December 2018	**202**	**644**	**7**	**853**
Accumulated amortisation				
At 1 January 2018	146	452	–	598
Charge for the year (Note 33)	9	34	–	43
Disposals	(9)	–	–	(9)
At 31 December 2018	**146**	**486**	**–**	**632**
Carrying amount				
At 1 January 2018	54	145	5	204
At 31 December 2018	**56**	**158**	**7**	**221**

Assets under construction mainly comprise software in the process of installation in the amount of HRK 7 million (2017: HRK 5 million).

Bank 2017 HRK millions	Leasehold improvement	Software	Assets under construction	Total
Gross carrying amount				
At 1 January 2017	193	572	10	775
Additions	–	–	41	41
Transfer from property, plant and equipment	–	3	–	3
Disposals	–	(17)	–	(17)
Transfer into use	7	39	(46)	–
At 31 December 2017	**200**	**597**	**5**	**802**
Accumulated amortisation				
At 1 January 2017	137	432	–	569
Charge for the year (Note 33)	9	31	–	40
Transfer from property, plant and equipment	–	2	–	2
Disposals	–	(13)	–	(13)
At 31 December 2017	**146**	**452**	**–**	**598**
Carrying amount				
At 1 January 2017	56	140	10	206
At 31 December 2017	**54**	**145**	**5**	**204**

17. Deferred tax asset

Recognised deferred tax asset and liabilities

Movements in temporary differences and underlying positions for deferred tax assets and deferred tax liabilities are as follows:

Group	Assets		Liabilities		Net income/(charge) to profit or loss		Net gain/(loss) in other comprehensive income	
HRK millions	2018	2017	2018	2017	2018	2017	2018	2017
Property, plant and equipment and investment property	–	–	(2)	(2)	–	–	–	–
Deferred fee and commission expense	–	–	(2)	(2)	–	1	–	–
Tax losses	–	–	–	–	–	(33)	–	–
Deferred fee and commission income	11	11	–	–	–	(4)	–	–
Recognition of deferred tax assets at the level of the Group	55	48	–	–	7	48	–	–
Unrealised gains on financial instruments at fair value through profit or loss	15	17	–	–	(2)	(10)	–	–
Other provisions	24	21	–	–	3	(5)	–	–
Deferred tax assets/(liabilities)	**105**	**97**	**(4)**	**(4)**	**8**	**(3)**	**–**	**–**
Unrealised gains on financial instruments at fair value through other comprehensive income		(7)	–	–	–	–	7	3
Recognised tax asset from financial asset at fair value through other comprehensive income	(2)	–	–	–	–		(2)	–
Off set	(4)	(4)	4	4	–	–	–	–
Net deferred tax asset	**99**	**86**	**–**	**–**	**8**	**(3)**	**5**	**3**

17. Deferred tax asset (continued)

Recognised deferred tax asset and liabilities (continued)

Movements in temporary differences and underlying positions for deferred tax assets and deferred tax liabilities are as follows:

Bank	Assets		Liabilities		Net income/(charge) to profit or loss		Net gain/(loss) in other comprehensive income	
HRK millions	2018	2017	2018	2017	2018	2017	2018	2017
Deferred fee and commission expense	–	–	(1)	(1)	–			–
Deferred fee and commission income	9	10	–	–	(1)	(3)		–
Unrealised gains on financial instruments at fair value through profit or loss	15	16	–	–	(1)	(10)		–
Impairment allowance of investments in subsidiaries	55	48	–	–	7	48		–
Tax losses	–	–	–	–	–	(33)	–	–
Other provisions	19	17	–	–	2	(2)	–	–
Deferred tax assets/(liabilities)	**98**	**91**	**(1)**	**(1)**	**7**	**–**		**–**
Unrealised gains on financial instruments at fair value through other comprehensive income	(2)	(6)	–	–	–	–	4	1
Off set	(1)	(1)	1	1	–			–
Net deferred tax asset	**95**	**84**	**–**	**–**	**7**	**–**	**4**	**1**

Certain deferred tax asset from impairment allowance for investments in subsidiaries relate to investment in related companies Raiffeisen Factoring d.o.o., Raiffeisen Consulting d.o.o. for which the Bank has created an impairment allowance and recognised deferred tax asset in the amount of HRK 55 million (2017: HRK 48 million).

18. Other assets

HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
Accrued fees and commission	30	31	17	16
Deferred fee and commission expense	1	1	1	1
Inventory and foreclosed assets	60	96	60	72
Advances	48	54	49	56
Receivables from credit and debit cards	45	47	45	47
Receivables from operating lease	4	9	–	–
Government housing savings subsidies receivables	2	3	–	–
Receivables from repurchase of domestic currency cash	9	16	9	16
Other	63	79	23	38
	262	**336**	**204**	**246**
Impairment allowance	(34)	(45)	(27)	(36)
	228	**291**	**177**	**210**

Movement in impairment allowance

Group HRK millions	Stage 3	Stage 1 and 2	2018 Total	Identified losses	Unidentified losses	2017 Total
At 1 January	**45**	**–**	**45**	**55**	**–**	**55**
Provisions created during the year	12	2	14	27	–	27
Provisions released during the year	(5)	–	(5)	(3)	–	(3)
Net charge/(release) recognised in profit or loss (Note 34)	7	2	9	24	–	24
Write offs	(20)	–	(20)	(34)	–	(34)
At 31 December	**32**	**2**	**34**	**45**	**–**	**45**

Bank HRK millions	Stage 3	Stage 1 and 2	2018 Total	Identified losses	Unidentified losses	2017 Total
At 1 January	**36**	**–**	**36**	**49**	**–**	**49**
Provisions created during the year	11	2	13	21	–	21
Provisions released during the year	(4)	–	(4)	(3)	–	(3)
Net charge/(release) recognised in profit or loss (Note 34)	7	2	9	18	–	18
Write offs	(18)	–	(18)	(31)	–	(31)
At 31 December	**25**	**2**	**27**	**36**	**–**	**36**

19. Financial liabilities at fair value through profit or loss

HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
Trading instruments				
Negative fair value of OTC derivative instruments	28	42	28	44
Negative fair value of OTC spot transactions	–	11	–	11
Fair value hedge:				
– Interest rate swap – hedge of the individual items	3	4	3	4
– Interest rate swap – portfolio hedge	7	–	7	–
Accrued interest	2	2	2	2
	40	**59**	**40**	**61**

20. Deposits from banks

HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
Current accounts and demand deposits				
– from parent bank	45	57	45	57
– from RBI group banks other than parent bank	12	8	96	45
– from other banks	375	242	375	242
Time deposits				
– from parent bank	–	263	–	263
– from other RBI group banks	–	–	–	–
– from other banks	157	486	157	486
	589	**1,056**	**673**	**1,093**

21. Deposits from companies and other similar entities

HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
Current accounts and demand deposits	10,596	8,973	10,801	9,247
Time deposits	782	571	789	564
Accrued interest	6	5	7	6
	11,384	**9,549**	**11,597**	**9,817**

22. Deposits from individuals

HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
Current accounts and demand deposits	7,748	5,989	7,748	5,989
Time deposits	7,082	8,209	6,016	7,181
Accrued interest	19	33	19	33
	14,849	**14,231**	**13,783**	**13,203**

23. Borrowings

HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
From ultimate parent bank	517	811	21	27
From other banks	524	889	232	456
From HBOR	761	866	641	751
From companies and other financial institutions	111	–	111	–
Accrued interest	2	7	1	5
Less deferred income	(1)	(1)	(2)	(2)
	1,914	**2,572**	**1,004**	**1,237**

Movements of outstanding borrowings

HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
At 1 January	2,572	3,992	1,237	1,759
New borrowings	8,680	3,457	8,217	2,682
Repayment of borrowings	(9,305)	(4,846)	(8,437)	(3,198)
Foreign exchange differences	(33)	(31)	(13)	(6)
At 31 December	**1,914**	**2,572**	**1,004**	**1,237**

Borrowing from companies and other financial institutions relate to repurchase agreements.

24. Provisions for liabilities and charges

Group HRK millions	Total	Off balance sheet exposure Identified Stage 3	Off balance sheet exposure Unidentified Stage 1 and 2	Provision for pension insurance	Provisions for unused holiday	Provision for court cases	Provisions for CHF conversion
At 31 December 2017	173	16	77	3	9	68	–
Effect of adoption of the Decision on classification	(10)	–	(10)	–	–	–	–
At 1 January	163	16	67	3	9	68	–
Provision released during the year	(2)	–	–	(1)	(1)	–	–
Provision created during the year	24	8	5	4	–	7	–
(Credit)/charge recognised in profit or loss	22	8	5	3	(1)	7	–
At 31 December 2018	185	24	72	6	8	75	–

Group HRK millions	Total	Off balance sheet exposure Identified Stage 3	Off balance sheet exposure Unidentified Stage 1 and 2	Provision for pension insurance	Provisions for unused holiday	Provision for court cases	Provisions for CHF conversion
At 1 January 2017	187	23	80	3	9	66	6
Provision released during the year	(16)	(7)	(3)	–	–	–	(6)
Provision created during the year	(2)	–	–	–	–	2	–
(Credit)/charge recognised in profit or loss	(14)	(7)	(3)	–	–	2	(6)
At 31 December 2017	173	16	77	3	9	68	–

24. Provisions for liabilities and charges (continued)

Bank HRK millions	Total	Off balance sheet exposure Identified Stage 3	Off balance sheet exposure Unidentified Stage 1 and 2	Provision for pension insurance	Provisions for unused holiday	Provision for court cases	Provisions for CHF conversion
At 31 December 2017	162	16	77	3	7	59	–
Effect of adoption of the Decision on classification	(10)	–	(10)	–	–	–	–
At 1 January	152	16	67	3	7	59	–
Provision released during the year	(2)	–	–	(1)	(1)	–	–
Provision created during the year	19	8	5	4	–	2	–
(Credit)/charge recognised in profit or loss	17	8	5	3	(1)	2	–
At 31 December 2018	169	24	72	6	6	61	–

Bank HRK millions	Total	Off balance sheet exposure Identified Stage 3	Off balance sheet exposure Unidentified Stage 1 and 2	Provision for pension insurance	Provisions for unused holiday	Provision for court cases	Provisions for CHF conversion
At 1 January 2017	176	23	80	3	7	57	6
Provision released during the year	(16)	(7)	(3)	–	–	–	(6)
Provision created during the year	2	–	–	–	–	2	–
(Credit)/charge recognised in profit or loss	(14)	(7)	(3)	–	–	2	(6)
At 31 December 2017	162	16	77	3	7	59	–

At 31 December 2018, 509 court proceedings are in process on court against the Bank. The Bank is sued by consumers for unilateral changing of interest rates and contracting a Swiss franc (CHF) currency clause in 431 proceedings.

Other proceedings against RBA relate to 10 misdemeanour proceedings, one working procedure, 23 compensation proceedings and 44 proceedings in other claims. In total, the Bank provided HRK 61 million for all cases, of which 18 million general provision for consumer complaints based on the verdicts in the collective dispute of the Consumer Association.

Consumer complaints against RBA are based on the Supreme Commercial Court's judgments in Zagreb (VTS) in the collective proceedings of the Consumers' Association against eight banks, including RBA. In June 2014, VTS ruled in favour of the prosecution against seven banks, including RBA for unilaterally changing interest rates, and in favour of banks for contracting currency clauses in CHF in consumer loans. Based on a ruling in a collective proceeding, consumers may initiate individual disputes against the RBA. In a renewed collective proceeding of the Consumers' Association against eight banks, the VTS in June 2018 ruled in favour of the plaintiff against eight banks for contracting the currency clause in CHF in consumer loans, confirmed the June 2014 verdict against seven banks for unilaterally changing the interest rate and ruling against one bank for one-sided interest rate modification (a bank against which in the same procedure was not judged in June 2014).

25. Other liabilities

HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
Technical reserves for pension insurance	485	437	–	–
Liabilities in respect of credit and debit card business	127	120	127	120
Liabilities to employees	55	59	48	51
Liabilities to suppliers	84	85	78	79
Deferred fee and commission income prepayments	18	19	8	7
Liabilities for prepaid loans and advances from individuals	18	34	12	23
Repurchase of domestic currency cash	9	6	9	6
Government housing savings subsidies	2	3	–	–
Other liabilities	78	188	33	151
	876	**951**	**315**	**437**

Technical reserves for pension insurance provisions have been computed by the Group's licensed actuary, in accordance with the method prescribed by the Law on Pension Insurance Companies and Payment of Pensions based on Individual Capitalised Savings.

The management believes that the current level of technical reserves is sufficient to meet all liabilities which may arise from the pension insurance contracts concluded by 31 December 2018.

26. Subordinated liabilities

The Bank has signed a subordinated loan agreement with RBI amounting to EUR 60 million as of 31 January 2014 and EUR 50 million as of 26 May 2015. The Bank use the subordinated loan to increase its Tier 2 Capital. Repayment of the loan mature on 20 February 2021 and 28 May 2022. Interest agreed consists of 3M EURIBOR increased by interest margin in the amount of 6.56% and 6.75% fixed.

HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
Loan	816	826	816	826
Accrued interest	6	6	6	6
	822	**832**	**822**	**832**

27. Interest income

a) Analysis by product

HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
Interest income calculated using the effective interest method				
Placements with banks	1	2	2	4
Loans from and advances to customers and similar entities	274	336	241	296
Loans and advances to individuals	663	702	623	661
Financial instruments at amortised cost	19	17	3	–
	957	**1,057**	**869**	**961**

27. Interest income (continued)

HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
Other interest income				
Derivative financial instruments	4	3	6	6
Other financial assets at fair value through profit or loss	35	41	22	28
financial assets at fair value through other comprehensive income	42	38	35	31
financial assets measured mandatorily at fair value through profit or loss	–	–	2	–
	81	82	65	65
	1,038	**1,139**	**934**	**1,026**

b) Analysis by source

HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
Companies	199	323	162	280
Individuals	663	702	623	661
State and the public sector	162	108	131	77
Banks and other financial institutions	14	6	18	8
	1,038	**1,139**	**934**	**1,026**

28. Interest expense

a) Analysis by product

HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
Derivative financial instruments	10	18	10	18
Derivative financial instruments in fair value hedges	4	2	4	2
Deposits from banks	7	7	7	7
Deposits from companies and other similar entities	8	14	8	15
Deposits from individuals	50	80	27	54
Borrowings	32	51	14	20
Subordinated liabilities	54	54	54	54
	165	**226**	**124**	**170**

28. Interest expense (continued)

a) Analysis by product

HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
Companies	8	14	8	15
Individuals	50	80	27	54
State and public sector	16	17	13	17
Banks and other financial institutions	91	115	76	84
	165	226	124	170

29. Fee and commission income

a) Analysis by product

HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
Domestic payment transactions	106	103	108	104
Investment management, custody and consultancy fees	184	196	18	34
Credit cards	357	291	357	291
Foreign exchange payment transactions	69	63	69	63
Partial recharge of credit insurance costs (Note 30)	19	21	19	21
Guarantees and letter of credits	27	30	27	30
Loans and accounts administration fee	38	40	34	39
Other fees and commission income	53	50	53	47
	853	794	685	629

b) Analysis by recipient

HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
Companies	419	406	254	244
Individuals	113	122	109	118
State and public sector	10	25	10	25
Banks and other financial institutions	311	241	312	242
	853	794	685	629

30. Fee and commission expense

a) Analysis by product

HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
Credit card related charges	320	251	320	251
Domestic payment transactions	21	21	21	21
Partially rechargeable credit insurance costs (Note 29)	27	31	27	31
Other fees and commission expense	22	22	18	17
	390	**325**	**386**	**320**

Based on loan insurance contracts the Bank pays premium to insurance companies, which is partially recharged to customers.

b) Analysis by recipient

HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
Companies	354	256	352	255
Banks and other financial institutions	36	69	34	65
	390	**325**	**386**	**320**

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

HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
Gains less losses from trading financial instruments				
- Debt securities	(9)	(8)	(9)	(8)
- Derivative financial instruments	34	(79)	41	(81)
	25	**(87)**	**32**	**(89)**
Gains less losses from financial assets designated at fair value through profit or loss				
Realised gain/(loss) on disposal of:				
– debt securities	1	–	1	(1)
Unrealised gain/(loss) on:				
– debt securities	(3)	8	(3)	1
– equity securities	(1)	(2)	–	–
	(3)	6	(2)	–
Net gain on financial assets at fair value through other comprehensive income	7	25	7	14
Net gain / (loss) on financial instruments at fair value	**29**	**(56)**	**37**	**(75)**
Gains less losses arising from trading in foreign currencies	124	107	124	109
Gains less losses arising from revaluation of monetary assets and liabilities, which are not trading with securities				
- net gain on foreign exchange translation of assets and liabilities in foreign currency	99	238	82	187
- net loss on foreign exchange translation of assets and liabilities with foreign currency clause	(105)	(97)	(96)	(48)
Total foreign exchange differences	(6)	141	(14)	139
Net gain from trading and foreign exchange differences from translation of monetary assets and liabilities	**118**	**248**	**110**	**248**
	147	**192**	**147**	**173**

Net losses from derivative instruments include net trading losses from interest rate and currency swaps, futures, forwards and forward rate agreements.

32. Other operating income

HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
Rental income from operating leases	55	95	–	–
Service and construction contract revenue	1	1	–	–
Premium on pension insurance contracts	198	151	–	–
Dividend from subsidiaries	–	–	79	72
Gain on sale of assets under operating leases	13	–	–	–
Other income	54	53	18	29
	321	**300**	**97**	**101**

33. Operating expenses

HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
Personnel expenses	428	430	369	369
Repayment of pension contract	151	130	–	–
Depreciation of property, plant and equipment (note 15)	89	105	38	34
IT expenses	87	83	87	77
Increase in technical reserve for pension insurance	52	38	–	–
Office space expenses	56	70	76	80
Legal, advisory and audit expenses	61	66	65	58
Deposit insurance expense	40	40	37	37
Amortisation of intangible assets (note 16)	45	42	43	40
Communication expenses	27	33	27	29
Advertising, PR and promotional expenses	27	34	27	29
Resolution fund fee	17	21	17	21
REGOS, HANFA expenses	29	26	–	–
Loss on disposal of assets under operating lease	–	3	–	–
Loan conversion expenses	3	8	3	8
Impairment of investment in related company	–	–	39	268
Other administrative expenses	121	83	56	55
	1,233	**1,212**	**884**	**1,105**

Personnel expenses of the Group include HRK 68 million (2017: HRK 68 million) of defined pension contributions paid or payable into obligatory pension plans. Contributions are calculated as a percentage of employees' gross salaries. At 31 December 2018 the Group had 2,121 employees (2017: 2,261 employees).

Personnel expenses of the Bank include HRK 58 million (2017: HRK 58 million) of defined pension contributions paid or payable into obligatory pension plans. Contributions are calculated as a percentage of employees' gross salaries. At 31 December 2018 the Bank had 1,885 employees (2017: 2,011 employees).

Legal, advisory and audit expenses include fee for the statutory audit of the annual financial statements in the amount of HRK 0.4 million (2017: HRK 0.5 million) and other fees in the amount of HRK 0.4 million (2017: HRK 0.2

34. Impairment losses

HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
Cash and current accounts with banks (Note 8)	4	3	3	3
Obligatory reserve with the Croatian National Bank (Note 9)	–	(2)	–	(2)
Placements with and loans to other banks (Note 11)	5	(8)	5	(7)
Loans from and advances to customers (Note 12)	206	369	198	(139)
Investment securities at amortised cost (Note 13)	1	–	2	–
Investment securities at fair value through other comprehensive income (Note 13)	(4)	–	(4)	–
Other assets (Note 18)	9	24	9	18
	221	**386**	**213**	**(127)**
Hereof:				
Identified losses	**–**	**407**	**–**	**(117)**
Unidentified losses	**–**	**(21)**	**–**	**(10)**
Stage 3	**251**	**–**	**243**	**–**
Stage 1 and Stage 2	**(30)**	**–**	**(30)**	**–**
	221	**386**	**213**	**(127)**

35. Income tax expense

HRK millions	Note	Group 2018	Group 2017	Bank 2018	Bank 2017
Recognised in other comprehensive income					
– Current tax expense		(55)	(99)	(27)	(79)
– Deferred taxes		10	(3)	7	–
Income tax expense		**(45)**	**(102)**	**(20)**	**(79)**
Reconciliation of income tax expense at 18%					
(Loss)/profit before tax		**328**	**290**	**239**	**475**
Income tax at 18% (2017:18%)		(59)	(52)	(43)	(86)
Adjustment of income tax from the previous year in the current year		(2)	(3)	(2)	(3)
Non–deductible expenses		(7)	(100)	(9)	(5)
Effect of adoption of the Decision on classification		19	–	16	–
Tax incentives and tax–exempt income		4	8	18	15
Recognition of previously unrecognised tax asset at the level of the Group		–	45	–	–
Income tax expense		**(45)**	**(102)**	**(20)**	**(79)**
Effective income tax rate		**13.72%**	**35.17%**	**8.37%**	**16.63%**

35. Income tax expense (continued)

Deferred tax assets

During 2018 subsidiaries gross tax losses amounted to had HRK 461 million (2017: HRK 7 million). Such tax losses may only be used by the company that incurred the loss to reduce taxable profits of the following five years. The expiry dates for unused tax losses were as follows:

HRK millions	Group Gross tax losses 2018	Group Tax benefit 2108	Group Gross tax losses 2017	Group Tax benefit 2107
31 December 2018	–	–	1	–
31 December 2019	–	–	–	–
31 December 2020	–	–	–	–
31 December 2021	–	–	–	–
31 December 2022	6	1	6	1
31 December 2023	455	82	–	–
	461	83	7	1

36. Share capital

Group and Bank HRK millions	2018 Total of ordinary shares	2017 Total share
Share capital	3,621	3,621
Nominal value per share	HRK 1,000	HRK 1,000
Number of shares	3,621,432	3,621,432

The parent bank of the Group is Raiffeisen Bank International AG, a company founded in Austria.

	2018 Ordinary shares %	2017 Ordinary shares %
Raiffeisen SEE Region Holding Gmbh	100	100
	100	100

37. Other reserves

Share premium

The share premium represents the accumulated positive difference between the nominal value and amount received upon issue of share capital.

Legal reserve

The legal reserve represents accumulated transfers from retained earnings in accordance with the Croatian Companies Act, which requires a minimum of 5% of the Group's net profit to be transferred to a non-distributable statutory reserve until the reserve (including share premium) reaches 5% of the Group's registered share capital. The legal reserve may be used to cover prior period losses if the losses are not covered by current year profits or if other reserves are not available.

37. Other reserves (continued)

Fair value reserve

The fair value reserve includes unrealised gains and losses on changes in the fair value of financial assets at fair value through other comprehensive income, net of deferred tax.

38. Proposed dividends

Dividends payable are not accounted for until they have been ratified at the General Meeting of Shareholders.

At a meeting held on 17 May 2018, a dividend of HRK 109.24 per ordinary share, totalling HRK 396 million was proposed and paid in May 2018.

It is expected that the payment of dividend from the current profit in the amount of HRK 218 million (HRK 60.34 per share) will be determined by the Supervisory Board and confirmed by the General Assembly meeting at the end of April 2019.

During 2018 the subsidiaries proposed and paid HRK 79 million from retained earnings (2017: HRK 72 million).

The Bank's expected dividend payment from subsidiaries in 2017 amounts to HRK 79 million

39. Non-controlling interest

The Group owns and realises 100% control in all subsidiaries that form the Group, it has rights over entire profit and equity, and consequently there is no non-controlling interest.

40. Earnings per share attributable to equity holders of the parent

For the purpose of calculating earnings per share, earnings are calculated as the profit for the period attributable to equity holders of the Bank. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year after deducting the number of ordinary treasury shares. Given that there is no effect of options, convertible bonds or similar effect, the weighted average number of ordinary shares used for diluted earnings per share was the same as used to calculate basic earnings per share. Also, since there are no preferred shares and therefore neither dividends, available profit is equal to profit for the year after tax attributable to owners of the Bank.

	Group 2018	Group 2017	Bank 2018	Bank 2017
Net profit for the year attributable to owners of the parent (HRK)	282,438,245	187,603,464	218,509,594	395,616,545
Weighted average number of ordinary shares outstanding during the year	3,621,432	3,621,432	3,621,432	3,621,432
Earnings per share attributable to owners of the parent in HRK	**77.99**	**51.80**	**60.34**	**109.24**

INTRODUCTION
2018 BUSINESS DEVELOPMENTS
RBI AT A GLANCE
FINANCIAL STATEMENTS
CONTACTS

41. Cash and cash equivalents

HRK millions	Notes	Group 2018	Group 2017	Bank 2018	Bank 2017
Cash in hand	8	1,049	804	1,049	804
Gyro account with the Croatian National Bank	8	4,194	3,851	4,194	3,851
Current accounts with other banks	8	98	92	89	91
Placements with and loans to other banks with original maturity up to three months		1,544	830	1,519	830
Impairment allowance		(47)	(48)	(46)	(48)
		6,838	**5,529**	**6,805**	**5,528**

42. Concentration of assets and liabilities

The Group's and Bank's assets are significantly concentrated on amounts due from the Republic of Croatia, as follows:

HRK millions	Notes	Group 2018	Group 2017	Bank 2018	Bank 2017
Gyro account with the Croatian National Bank	8	4,194	3,851	4,194	3,851
Obligatory reserve with the Croatian National Bank	9	1,924	1,757	1,924	1,757
Government bonds, direct exposure	10, 13	2,703	2,739	1,856	1,886
Treasury bills issued by the Ministry of Finance	10, 13	1,073	909	978	821
Loans from and advances to customers	12	194	562	193	489
Provision for Stage 1 and 2 /unidentified impairment losses		(53)	(62)	(52)	(61)
Borrowings		(761)	(913)	(641)	(913)
Deposits from the Republic of Croatia		(55)	(41)	(55)	(41)
		9,219	**8,802**	**8,397**	**7,789**

In addition, the Bank had indirect exposure to the Republic of Croatia in respect of loans and advances to public funds and off-balance-sheet exposures as follows:

	Group 2018	Group 2017	Bank 2018	Bank 2017
Loans from and advances to customers guaranteed by the State	202	289	202	216
Guarantees, letters of credit and undrawn lending facilities	9	8	9	8
	211	**297**	**211**	**224**

The total net direct and indirect on and off-balance-sheet exposure to Republic of Croatia represents 22% of the total assets and off-balance-sheet exposure of the Group (2017: 22%) and 21% of the total assets and off-balance-sheet exposure of the Bank (2017: 20%).

43. Repurchase and reverse repurchase agreements

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate.

Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. The financial instruments sold are not derecognised and the proceeds are accounted for as interest bearing borrowings. At the year-end assets sold under repurchase agreements were as follows:

Group/Bank HRK millions	Fair value of underlying assets	Carrying amount of corresponding liabilities	Repurchase date	Repurchase price
2018				
Securities at fair value through profit or loss	113	111	May 2019	111
2017			February 2020	
Securities at fair value through profit or loss	175	160	November 2022	160

Borrowings from European bank for reconstruction and development in the amount of HRK 157 million (2017: HRK 202 million) are secured with securities in the amount of HRK 201 million (2017: HRK 249 million).

The Group also purchases financial instruments under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchases are entered into as a facility to provide funds to customers and are accounted for as loans and advances to customers; the underlying financial instruments are not recognised. At year end assets purchased subject to agreements to resell them were as follows:

Group/Bank HRK millions	Fair value of underlying assets	Carrying amount of corresponding liabilities	Repurchase date	Repurchase price
Loans from and advances to customers				
2018	187	170	January 2019	170
2017	86	75	January-March 2018	75

44. Commitments and contingent liabilities

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

	Group 2018	Group 2017	Bank 2018	Bank 2017
Guarantees	2,526	2,439	2,526	2,444
Letters of credit	83	108	83	108
Undrawn lending facilities	1,771	1,811	1,581	1,577
Other risk off-balance sheet items	3,422	3,654	3,423	3,655
	7,802	**8,012**	**7,613**	**7,784**

44. Commitments and contingent liabilities (continued)

At 31 December 2018, the Bank recognised portfolio-based provisions for off-balance-sheet risks arising from the issue of guarantees, letters of credits and undrawn lending commitments, in the amount of HRK 96 million (2017: HRK 93 million), which are included in provisions for liabilities and charges (Note 24).

Group as a lessee

The Group leases certain business premises and other assets under operating lease arrangements. Lease payments are originally denominated in CHF.

45. Assets and liabilities managed on behalf of third parties

The Group provides trust and custody services to companies, banks, individuals, and investment and pension funds (all non-Group) whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Group receives fee income for providing these services. Trust assets are not assets of the Group and are not recognised in the consolidated statement of financial position. The Group is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 December 2018, the total assets under custody held by the Group on behalf of customers were HRK 4,886 million (2017: HRK 5,201 million).

In addition, at 31 December 2018 total assets of investment and pension funds under Group management amounted to HRK 33,069 million (2017: HRK 31,310 million).

During 2018 the Group made income in the amount of HRK 175 million (2017: HRK 172 million) of fees on trust activities provided to companies, banks and individuals, and management of investment and pension funds.
As at 31 December 2018 the Group and the Bank managed loans on behalf of third parties as follows:

HRK millions	2018	2017
Assets		
– Loans to companies	215	119
Total assets	**215**	**119**
Liabilities		
– Financial institutions	215	119
Total liabilities	**215**	**119**

46. Derivative instruments and foreign currency trading

The Group and the Bank had the following derivative contracts accounted for as trading instruments open at year-end.

Group 2018	Notional amount		Fair value	
HRK millions	Assets	Liabilities	Assets	Liabilities
Trading derivative instruments				
– FX forward contracts – OTC	3,758	2,308	42	9
– Cross currency swap contracts – OTC	–	83	–	2
– Interest rate swap contracts – OTC	545	767	7	16
Futures	–	155	–	1
	4,303	3,313	49	28
Unsettled trading with currencies – OTC	527	368	–	–
Hedging derivative instruments				
– Interest rate swap contracts – OTC Hedge of individual items	–	120	–	3
Portfolio hedge	–	198	–	7
	–	318	–	10

Group 2017	Notional amount		Fair value	
HRK millions	Assets	Liabilities	Assets	Liabilities
Trading derivative instruments				
– FX forward contracts – OTC	1,741	3,633	24	26
– Cross currency swap contracts – OTC	–	99	–	5
– Interest rate swap contracts – OTC	543	360	5	7
	2,284	4,092	29	38
Unsettled trading with currencies – OTC	1,237	2,080	4	11
Hedging derivative instruments				
– Interest rate swap contracts – OTC	–	121	–	4
Hedge of individual items	–	121	–	4

Derivative instruments for hedge accounting are used for management of the interest rate risk that results from the loans with fixed interest rates. Hedge of individual items relate to loans to corporate customers, while portfolio hedge relates to the loans to individuals.

46. Derivative instruments and foreign currency tradin (continued)

Bank 2018	Notional amount		Fair value	
HRK millions	Assets	Liabilities	Liabilities	Assets
Trading derivative instruments				
– FX forward contracts – OTC	3,817	2,308	42	9
– Cross currency swap contracts – OTC	–	83	–	2
– Interest rate swap contracts – OTC	619	767	9	16
– Futures	–	155	–	1
	4,436	3,313	51	28
Unsettled trading with currencies – OTC	527	368	–	–
Hedging derivative instruments				
– Interest rate swap contracts – OTC				
Hedge of individual items	–	120	–	3
Portfolio hedge	–	198	–	7
	–	318	–	10

Bank 2017	Notional amount		Fair value	
HRK millions	Assets	Liabilities	Liabilities	Assets
– FX forward contracts – OTC	1,982	3,946	24	28
– Cross currency swap contracts – OTC	–	99	–	5
– Interest rate swap contracts – OTC	685	360	10	7
	2,667	4,405	34	40
Unsettled trading with currencies – OTC	1,237	2,080	4	11
Hedging derivative instruments				
– Interest rate swap contracts – OTC				
Hedge of individual items	–	121	–	4
	–	121	–	4

46. Derivative instruments and foreign currency trading (continued)

Fair value hedge accounting – interest rate risk

HRK millions	Average fixed interest rate 2018 %	2017 %	Notional amount 2018	2017	Fair value Assets (Liabilities) 2018	2017
Hedged item - loan to customers - corporate - hedge of individual items	1.06	7.14	123	121	3	4
Hedging instrument - interest rate swap, with maturity 1 to 5 years - hedge of individual itemsi	0.25	1.11	120	121	(3)	(4)
Hedged item - loan to customers - individuals - portfolio hedge	0.96	7.14	205	-	6	-
Hedging instrument - interest rate swap, with maturity 1 to 5 years - portfolio hedge	0.25	(0.27)	198	-	(7)	-

46. Derivative instruments and foreign currency trading (continued)

Fair value hedge accounting – interest rate risk (continued)

The effectiveness ratio of hedge of individual items for 2018 was 99.70% (2017: 99.83%). The effectiveness ratio of portfolio hedge for 2018 was 108.81% (2017: -).

Line in the statement of financial position that include hedging instrument HRK millions	Change of fair value used for calculation of hedge effectiveness	Effect of ineffective part of hedge recognised in profit or loss	Line in the income statement that include effect of ineffective part of hedge
Financial liabilities at fair value through profit or loss – hedge of individual items	1	–	Gains less losses from trading financial instruments
Financial liabilities at fair value through profit or loss – portfolio hedge	(7)	–	Gains less losses from trading financial instruments

Accumulated amount of fair value hedge adjustment On the hedged item included in the carrying amount of the hedged item Assets / (Liabilities) HRK millions	Line in the statement of financial position that include hedged item	Change of fair value used for calculation of hedge ineffectiveness	Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses
3	Loan to customers – corporate – hedge of individual items	(1)	–
6	Loan to customers – individuals – portfolio hedge	6	–

47. Related party transactions

Raiffeisenbank Austria d.d. and its subsidiaries are directly owned by Raiffeisen Bank International AG ("the RBI"), a Company founded in Austria, to which and to whose affiliates (collectively "the RBI Group") the Group provides banking services. The Bank considers that it has an immediate related party relationship with its subsidiaries and associates ("the Group"), with its main shareholders, the Supervisory and Management Board members and other executive management of the Bank (together "key management personnel"), close family members of key management personnel, their close family members and entities jointly controlled or significantly influenced by key management personnel and their close family members. Key management personnel include members of the Management and Supervisory Boards of the members of the Group.

47. Related party transactions (continued)

Key transactions with related parties

Assets and liabilities and off-balance sheet exposures and income and expenses as at and for the year ended 31 December, arising from transactions with related parties were as follows:

HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
Statement of total comprehensive income Interest, fee and commission income				
– Raiffeisen Leasing d.o.o.	–	–	4	18
– Raiffeisen stambena štedionica d.d.	–	–	4	4
– Raiffeisen Consulting d.o.o.	–	–	5	5
– Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondom d.d.	–	–	2	2
– Raiffeisen mirovinsko osiguravajuće društvo d.d.	–	–	1	2
– Raiffeisen Invest d.o.o.	–	–	2	3
– RBI	17	4	17	4
Total	**17**	**4**	**35**	**38**
Interest, fee and commission expense				
– Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.	–	–	–	(1)
– RBI	(76)	(86)	(66)	(73)
– RBI Grupa	(14)	(13)	(14)	(9)
Total	**(90)**	**(99)**	**(80)**	**(83)**

47. Related party transactions (continued)

HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
Trading and other income				
– Raiffeisen Leasing d.o.o.	–	–	–	1
– Raiffeisen stambena štedionica d.d.	–	–	4	1
– Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondom d.d.	–	–	79	67
– Raiffeisen mirovinsko osiguravajuće društvo d.d.	–	–	1	5
– Raiffeisen Invest d.o.o.	–	–	1	–
– Raiffeisen Consulting d.o.o.	–	–	2	2
– Raiffeisen Factoring d.o.o.	–	–	6	1
– RBI	28	105	28	105
– RBI Grupa	–	1	–	1
Total	**28**	**106**	**121**	**183**
Operating expenses				
– Raiffeisen Leasing d.o.o.	–	–	(2)	(4)
– Raiffeisen Consulting d.o.o.	–	–	(30)	(19)
– RBI Group	(4)	–	(4)	–
Total	**(42)**	**(37)**	**(104)**	**(60)**
Assets Current accounts and placements with banks				
– Raiffeisen stambena štedionica d.d.	–	–	36	36
– RBI	38	57	38	57
– RBI Group	1	4	1	4
Total	**39**	**61**	**75**	**97**
Loans from and advances to customers				
– Raiffeisen Consulting d.o.o.	–	–	163	87
– Raiffeisen Leasing d.o.o.	–	–	15	312
Total	**–**	**–**	**178**	**399**
Accrued income and other assets				
– Raiffeisen Leasing d.o.o.	–	–	5	5
– Raiffeisen stambena štedionica d.d.	–	–	2	–
– RBI	1	22	1	22
Total	**1**	**22**	**8**	**27**

47. Related party transactions (continued)

HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
Liabilities Deposits				
– Raiffeisen Leasing d.o.o.	–	–	51	26
– Raiffeisen stambena štedionica d.d.	–	–	116	38
– Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondom d.d.	–	–	81	75
– Raiffeisen mirovinsko osiguravajuće društvo d.d.	–	–	27	40
– Raiffeisen Factoring d.o.o.	–	–	41	160
– Raiffeisen Invest d.o.o.	–	–	15	13
– RBI	45	320	45	320
– RBI Group	11	8	11	8
Total	**56**	**328**	**387**	**680**
Borrowings and subordinated liabilities				
– RBI	1,338	1,644	842	859
Total	**1,338**	**1,644**	**842**	**859**
Accrued and other liabilities				
– Raiffeisen Consulting d.o.o.	–	–	1	–
– RBI	45	43	45	43
– RBI Grup	3	1	3	1
Total	**48**	**44**	**49**	**44**
Off–balance sheet exposure				
Derivative instruments				
– Raiffeisen Leasing d.o.o.	–	–	56	41
– Raiffeisen stambena štedionica d.d.	–	–	74	75
– Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondom d.d.	–	–	–	113
– Raiffeisen Consulting d.o.o.	–	–	–	266
– Raiffeisen Factoring d.o.o.	–	–	–	237
– Raiffeisen mirovinsko osiguravajuće društvo d.d.	–	–	4	4
– RBI	4,260	4,000	4,260	4,000
Total	**4,260**	**4,000**	**4,394**	**4,736**

47. Related party transactions (continued)

2018 HRK millions	Exposure	Liabilities	Income	Expense
Group				
Key management personnel				
Short–term benefits (salaries and fees)	–	16	–	40
Long–term benefits	–	–	–	6
Loans and advances	21	–	1	–
Deposits	–	26	–	–
Total	**21**	**42**	**1**	**46**
Bank				
Key management personnel				
Short–term benefits (salaries and fees)	–	14	–	17
Long–term benefits	–	–	–	3
Loans and advances	3	–	–	–
Deposits	–	6	–	–
Total	**3**	**20**	**–**	**20**

2017 HRK millions	Exposure	Liabilities	Income	Expense
Group				
Key management personnel				
Short–term benefits (salaries and fees)	–	17	–	40
Long–term benefits	–	–	–	6
Loans and advances	26	–	–	–
Deposits	–	18	–	–
Total	**26**	**35**	**–**	**46**
Bank				
Key management personnel				
Short–term benefits (salaries and fees)	–	14	–	17
Long–term benefits	–	–	–	3
Loans and advances	7	–	–	–
Deposits	–	5	–	–
Total	**7**	**19**	**–**	**20**

48. Risk management

This section provides details of the Group's exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Group is exposed are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate risk and equity price risk.

An integrated system of risk management is established at the Group level by introducing a set of policies and procedures, determining the limits of risk levels acceptable to the Group. The limits are set according to the amount of regulatory capital and apply to all types of risk. Methodologies and models for managing operational risk have been developed.

Credit risk

Quality analysis of credit portfolio

Group

2108 HRK millions	Stage 1	Stage 2	Stage 3	POCI	Total
Balance sheet exposure on loans					
Low risk	4,744	895	–	1	5,640
Medium risk	5,413	1,487	–	7	6,907
High risk	1,110	473	–	1	1,584
Default	413	6	1,283	188	1,890
Without rating	2,421	123	84	6	2,634
Balance sheet impairment allowance	(90)	(137)	(887)	(78)	(1,192)
Carrying amount	**14,011**	**2,847**	**480**	**125**	**17,463**

Bank

2108 HRK millions	Stage 1	Stage 2	Stage 3	POCI	Total
Balance sheet exposure on loans					
Low risk	4,861	893	–	1	5,755
Medium risk	4,950	1,462	–	7	6,419
High risk	891	457	–	1	1,349
Default	413	6	1,211	188	1,818
Without rating	1,741	104	62	5	1,912
Balance sheet impairment allowance	(82)	(134)	(860)	(78)	(1,154)
Carrying amount	**12,774**	**2,788**	**413**	**124**	**16,099**

Comparative information for 2017 have not been presented, as the Bank and the Group have not restated the financial information for 2017.

When showing the delay, only the due portion of the debt is taken into account, while the missing part is in the group without delays.

48. Risk management

Credit risk (continued)
Quality analysis of credit portfolio (continued)

Group

2018 HRK millions	Stage 1	Stage 2	Stage 3	POCI	Total
Balance sheet exposure on loans					
Without delay	13,863	2,787	–	123	16,773
Delay <30 days	131	44	8	–	183
Delay >30 days	17	16	472	2	507
Total	**14,011**	**2,847**	**480**	**125**	**17,463**

Bank

2018 HRK millions	Stage 1	Stage 2	Stage 3	POCI	Total
Balance sheet exposure on loans					
Without delay	12,741	2,768	–	123	15,632
Delay <30 days	32	12	5	–	49
Delay >30 days	1	8	408	1	418
Total	**12,774**	**2,788**	**413**	**124**	**16,099**

Comparative information for 2017 has not been presented, as the Bank and Group have not restated financial information for 2017.

Group

2018 HRK millions	Stage 1	Stage 2	Stage 3	POCI	Total
Off – balance sheet exposure on loans					
Low risk	128	11	–	–	139
Medium risk	332	3	–	–	335
High risk	57	3	–	–	60
Default	152	1	18	–	171
Without rating	1,263	18	–	–	1,281
Balance sheet impairment allowance	(22)	(1)	(10)	–	(33)
Carrying amount	**1,910**	**35**	**8**	**–**	**1,953**

48. Risk management (continued)

Credit risk (continued)
Quality analysis of credit portfolio (continued)

Bank

2018 HRK millions	Stage 1	Stage 2	Stage 3	POCI	Total
Off – balance sheet exposure on loans					
Low risk	86	2	–	–	88
Medium risk	235	3	–	–	238
High risk	33	3	–	–	36
Default	152	1	18	–	171
Without rating	1,263	18	–	–	1,281
Balance sheet impairment allowance	(22)	(1)	(10)	–	(33)
Carrying amount	**1,747**	**26**	**8**	**–**	**1,781**

First class collaterals

The Bank holds the first-class collaterals against individual exposures. The following table set outs principal types of collateral per different types of exposures.

	% of loan exposure which is subject to collateral requirements	Type of collateral
Loans to individuals		
Housing loans	100%	Residential property
Non purpose loans	–	
Credit cards	–	
Current account overdrafts	–	
Loans to micro clients		
Collateralised loans to micro clients	100%	Commercial property
Uncollateralised loans to micro clients	–	
Loans to corporates	33%	Commercial property

Housing loans to individuals

LTV HRK millions	Group	Bank
<40%	606	485
40%-60%	709	645
60%-80%	1.018	929
80%-90%	620	525
>90%	1,473	1,277
n/a	416	259
Ukupno	**4,842**	**4,120**

48. Risk management (continued)

Credit risk (continued)

The value of received housing loans secured by housing loans is based on the estimated value of the real estate when approving the placements. The same is updated once a year in the revaluation process. For non-performing clients, the value of the collateral is based on an estimate not made in the process of transferring to the authority of the Restructuring Customer and Restructuring Business Unit.

Loans to corporates

Credit quality depends on the creditworthiness of the borrower. For specific placements and certain placement users, the Bank contracts additional first-class collaterals. The Bank as the first-class collaterals accepts cash deposit, property pledge, pledge on movable property, guarantees and other forms of first-class collaterals.

The Bank regularly evaluates the value of the collateral. Cash deposits and securities are estimated on a daily basis, and movables and real estate annually. For clients with an increased risk (pre-workout status), collateral instruments are controlled more frequently. For non-performing clients, the value of the underlying collateral is based on the most recent valuation carried out under the transfer of the Restructuring Customer and Disbursement Operations Unit, and is monitored on a quarterly basis.

Methodology for Calculating Expected Credit Losses (ECL)

Exposures are divided into three Stages depending on the default status and the level of credit risk exposure increase compared to the exposure estimation, which is determined by qualitative and quantitative criteria.

Exposures that are in default status are automatically grouped into Stage 3. Stage 2 include exposures with significant deterioration of credit risk in relation to the credit risk assessment when the authorization is granted, and Stage 1 represents new exposures and those without significant increase in credit risk.

Significant deterioration of credit risk

When determining whether the risk of default status has significantly increased, the Bank uses relevant and available information. Access includes quantitative and qualitative criteria, ie historical-based analysis and expert credit risk assessment, and includes a forward looking component.

The quantitative criterion or the quantitative threshold of significance is applied to change the probability estimates of the entry into the status of default status during the entire period of credit exposure at the time of exposure approval and the reporting date. If the difference is greater than the threshold of significance, the exposure is determined by a significant deterioration of the credit risk, which is why it is grouped into Stage 2.

In non-retail exposures, the Bank considers that the internal credit rating represents a comprehensive estimate of the borrower's credit quality, and the PD is, where relevant, corrected by the status of a macroeconomic position. The estimate of the occurrence of the increased risk is based on the level of credit risk that existed when the credit exposure was approved. The PD used in the calculation is adjusted using the macroeconomic forecast and thus receives a point-in-time PD. The list of qualitative criteria mostly contains data that can be obtained using the internal rating models used as inputs in rating. Since all of these data are contained and in the rating itself, a quantitative criterion is sufficient for a precise estimate of a significant increase in credit risk. Other forward looking information used is a holistic approach, market indicators, Early Warning System, changes in contractual provisions, forbearance and non-performing regulatory definitions, and a delay of more than 30 days.

In retail exposures, the estimated probability of entering a non-performing exposure is based on the scoring models used by the Bank in managing credit risk and statistical models and statistical estimates, depending on the type of exposure and including the impact of expected macroeconomic developments. Qualitative criteria include detection of indicators forbearance, holistic access indicators, more than 30 days of delay, entry into the default status of other client exposure as the definition of entry into the default status of product-level exposure applies).

48. Risk management (continued)

Credit risk (continued)

Macroeconomic factors

The impact of macroeconomic developments on the calculation of impairment is expressed through macroeconomic models for certain risk parameters. Macroeconomic models are used for the likelihood of default status and losses due to the default status . During the development of the model, several indicators were observed, and in the applied retail model, account was taken of indicators of changes in the unemployment rate and changes in gross domestic product relative to the previous year. The re-evaluation of macroeconomic models is carried out at least once a year.

Calculation of expected loss due to credit risk

Calculation of expected losses due to credit risk is based on estimated likelihood of becoming a non-performing with all of the above-mentioned elements, estimates of losses due to entry into the default status and balance and off-balance sheet exposures.

Stage 1 calculates the expected loss for the next 12 months, where 12-month probability of entering the status of default is applied. Stage 2 calculates the expected loss for the remaining repayment period, where the probability that exposure during the remainder of the remaining repayment period is entered into default status.

Loss due to entry into the default status is also assessed for retail exposure by statistical models or statistical estimates depending on the type of exposure. Revision and re-evaluation of statistical models and statistical assessments shall be carried out at least once a year.

Default status

The Bank considers that the status of default status of the obligation has arisen:

- when it is considered probable that the other party will not fully meet its obligations towards a credit institution arising out of contracts under which a credit institution is exposed to credit risk to the parent company of a credit institution or any of its subordinated company, not taking into account the possibility of collecting the instruments insurance (if the liability is secured by insurance instruments);
- if the counterparty has not fulfilled its due obligation for any more than 90 days due to any material lending obligation to the credit institution, parent company of the credit institution or any of its subordinates
- If a forced restructuring of the existing obligations arises

When determining the required level of value adjustments for clients in the status default status, it is necessary to make an estimate of the expected losses. The amount of expected losses is determined as the difference between the carrying amount and the present value of the discounted future cash flows discounted using the original effective interest rate. When calculating for non-retail clients, at least 2 scenarios are used. For exposure to the private individuals, the definition of default status of a particular product is applied. The Bank shall pay due attention to the specific requirements of the Decision on classification.

Credit risk before 1 January 2018

The Group is exposed to credit risk through its trading, lending, economic hedging and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. The risk that counterparties to derivative or other instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Group deals with counterparties of good credit ability, and when appropriate, obtains collateral.

The Group's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the statement of financial position. In addition, the Group is exposed to off-balance-sheet credit risk through unutilized part of loans granted and guarantees issued – refer to Note. 44

Exposure to credit risk is managed in accordance with the Group's policies. Credit exposures to portfolios and individual risk groups are reviewed on a regular basis. Breaches of set limits are reported to appropriate authority level. Any substantial increases in credit exposure are authorized by the Credit Committee. The Credit Committee and Problem Loan Committee monitor changes in the creditworthiness of borrowers.

48. Risk management (continued)

Credit risk (continued)

In case the analysis of borrower's creditworthiness proves to be inadequate a workout officer calculates and recommends creation of individual loan loss provisions. Problem loan committee decides upon individual loan loss provisions. Credit risk assessment is an ongoing process designed to facilitate the early identification of impairment of credit exposures.

The Group applies a prudent approach to credit risk assessment. When a credit exposure is classified as „Work-out "(„WO ") for the first time it has to be transferred to the Collections and Workout Division and reported to the Problem Loan Committee. However, in the case of default, the client has to be evidenced in the Default Data Base (DDB) and immediately transferred to Work-out Department.

According to local methodology (CNB) for those placements, Bank uses the following classification into the appropriate risk groups:
A group - placements that are fully recoverable
B group - placements that are partially recoverable
1) subgroup B-1 - value adjustment at least 1% but not higher than 30% of each placement
2) subgroup B-2 - value adjustment more than 30%, but not higher than 70% of each placement
3) subgroup B-3 - value adjustment more than 70% but less than 100% of each placement
C group - placements that are fully unrecoverable - 100% value adjustment

The Bank uses an early warning system for identifying potentially doubtful accounts among its non-retail customers. This is support to timely identify any changes in the risk level of a particular customer. Monitoring is performed on a monthly basis. Once an early warning is provided, it is acted upon by analysing its value and root cause. Depending on the risk level rating of a customer (1-4), the customer remains within the Corporate Division (1 - regular customer and 2 - pre-workout customer) or is transferred to the Loan Workout Division (3 - Early workout stage or 4 - Late workout stage or legal action).

Early Warning System is also used for Micro segment. The EWS output is mainly based on an evaluation of the customer's behaviour and the monitoring is performed on a monthly basis. Customers are classified according to their risk profile (low, medium, high) and appropriate actions are taken as per their category.

The Credit Committee has the authority to approve new limit to the clients of risk status 1 and 2. The decision of the Credit Committee can be reversed only by the Supervisory Board. The Problem Loan Committee has the authority for credit reviews of the clients with risk status 3 and 4, and is in charge of determination of individual loan loss provisions. The Group's credit policies contain retail and corporate customer lending guidelines. The credit policies define the criteria for providing funds to e.g. target industries, structuring portfolios in line with customer ratings, by type of collateral, and similar. The Group has internal policies in place that regulate acceptable types of collateral and their valuation. Most frequently provided security instruments comprise real estate, cash deposits, movable property, inventories, listed securities and other assets.

48. Risk management (continued)

Concentration of risk and maximum exposure to credit risk

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

HRK millions	Notes	Group 2018	Group 2017	Bank 2018	Bank 2017
Current accounts with banks	8	4,257	3,904	4,249	3,903
Obligatory reserve with the Croatian National Bank	9	1,909	1,739	1,909	1,739
Debt financial assets at fair value through profit or loss	10	1,527	948	1,014	572
Placements with, and loans and advances to banks	11	1,532	894	1,543	905
Loans and advances	12				
Corporate		7,438	7,822	6,796	7,205
Retail (individuals)		10,025	9,923	9,303	9,248
Debt financial assets					
At FVOCI	13	5,262	5,906	5,024	5,586
At amortised cost	13	535	279	252	-
Other assets	18	50	81	46	44
		32,535	31,496	30,136	29,202

The table below shows the maximum exposure to credit risk for the components of the off balance:

Contingent liabilities and commitments HRK millions	Note	Group 2018	Group 2017	Bank 2018	Bank 2017
Guarantees	44	2,526	2,439	2,526	2,444
Letters of credit	44	83	108	83	108
Undrawn lending facilities	44	1,771	1,811	1,581	1,577
Other risk off-balance sheet items	44	3,422	3,654	3,423	3,655
		7,802	8,012	7,613	7,784
Impairment allowance		(96)	(93)	(96)	(93)
		7,706	7,919	7,517	7,691

Concentration of credit risk by geographic region and industry

The Group and Bank have a diversified portfolio within Croatia covering all sectors of the economy. The majority of commercial lending is to companies and individuals domiciled in Croatia. The Group and Bank have the following gross credit risk concentration by geographic region and industry:

48. Risk management (continued)

Concentration of credit risk by geographic region and industry (continued)

HRK millions	2018 Group Balance sheet exposure	Off-balance sheet exposure	2017 Group Balance sheet exposure	Off-balance sheet exposure	2018 Bank Balance sheet exposure	Off-balance sheet exposure	2017 Bank Balance sheet exposure	Off-balance sheet exposure
Geographic region:								
Croatia	29,025	7,765	29,164	7,977	26,593	7,576	26,299	7,749
Rest of EU	3,568	28	3,351	29	3,546	28	3,351	29
Non EU	1,281	9	1,115	6	1,281	9	1,115	6
Total	**33,874**	**7,802**	**33,630**	**8,012**	**31,420**	**7,613**	**30,765**	**7,784**
Impairment allowance	(1,333)	(96)	(2,134)	(93)	(1,284)	(96)	(1,563)	(93)
	32,541	**7,706**	**31,496**	**7,919**	**30,136**	**7,517**	**29,202**	**7,691**

Concentration of credit risk by industry:

	Group 2018 %	Group 2017 %	Bank 2018 %	Bank 2017 %
Individuals	29	28	29	29
Financial services	22	19	23	21
Trade	9	9	8	9
Central and local government	10	14	8	12
Construction	4	5	5	5
Food and drink industry	3	3	3	3
Non-metal industry	4	5	4	4
Electronics	2	3	3	3
Wood and paper industry	1	1	1	1
Craft and services	13	10	14	10
Other business activities	3	3	2	3
Total credit risk	**100**	**100**	**100**	**100**

48. Risk management (continued)

Concentration of risk assets related to risk groups including balance sheet and off-balance sheet exposure:

Rating	2018 Group			2017 Group		
HRK milions	Total exposure	Impairment allowances	Net exposure	Total exposure	Impairment allowances	Net exposure
A	40,072	414	39,658	38,861	349	38,512
B1	433	72	361	708	94	614
B2	367	179	188	617	393	224
B3	242	202	40	512	447	65
C	562	562	–	944	944	–
Total	**41,676**	**1,429**	**40,247**	**41,642**	**2,227**	**39,415**

Rating	2018 Bank			2017 Bank		
HRK milions	Total exposure	Impairment allowances	Net exposure	Total exposure	Impairment allowances	Net exposure
A	37,509	400	37,109	36,460	338	36,122
B1	390	66	324	638	88	550
B2	355	174	181	356	200	156
B3	235	196	39	503	438	65
C	544	544	–	592	592	–
Total	**39,033**	**1,380**	**37,653**	**38,549**	**1,656**	**36,893**

Liquidity risk

Important role which banks preform in financial markets is maturity transformation. The need for the maturity transformation comes from the fact that the banks depositors' require quick and short term access to their deposited funds while on the other hand other group of bank clients requires funding via long term loans. This situation gives rise to the persistent discrepancies between inflows and outflows of the bank in various time bands (liquidity gaps). In order to manage these discrepancies or gaps, the bank engages in various transactions with other members of the financial market, taking into consideration not only contractual maturity, but also experientially maturity of assets and liabilities. Hence, liquidity gaps result in liquidity risk which manifests itself in the form of the risk that the bank won't be able to finance (refinance) its positions under acceptable terms and in the form of the risk that the bank won't be able to efficiently liquidate its assets in acceptable time period.

The Group continually assesses liquidity risk by identifying and monitoring changes in the level of mismatch between inflows and outflows on total and on currency level, and changes in the availability of funds needed for achieving defined business and strategic goals. In addition, the Group maintains a portfolio of liquid assets which can, if needed, be used as a source of fresh funds. The liquidity risk is managed through alignment of assets and liabilities, though setup of market, credit and liquidity gaps limits and through achieving appropriate levels of liquidity indicator, including holding of sufficiently large liquidity buffer, stress tests based on different scenarios, and liquidity contingency plan.
All these measures, assessments and analyses are discussed regularly in the Asset/Liability Committee meetings.

48. Risk management (continued)

Liquidity risk (continued)

The Group aligns its business activities in line with legal regulation concerning liquidity risk and in line with the internal and the RBI Group acts concerning the management of liquidity reserve.

Special attention is devoted to Basel III liquidity risk measures, especially Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The ratios are monitored on daily (LCR) and quarterly (NSFR) basis. Both, LCR and NSFR were maintained above internal limits (defined internal limits are: LCR 110% ; NSFR 100%)

Short term liquidity gap is also analysed through liquidity surplus and the ratio of expected (modelled) cash inflows and counterbalancing capacity to cash outflows and selected maturities are shown on cumulative basis. Analyses include all balance and off balance sheet positions.

			2018			2017
In EUR million	7 days	30 days	1 year	7 days	30 days	1 year
Liquidity gap	1,002	1,162	1,049	833	936	917
Liquidity ratio	276%	228%	148%	183%	179%	137%

To further control and limit the liquidity risk, target loan/deposits ratios are reviewed for certain members of the Group, taking into account the requirements of Basel III. The Group also conducts liquidity stress-tests analysis on daily level in order to determine the necessary liquidity buffer.

Special attention is devoted to defining the Group's financial plans that include a wide variety of financing for mitigation funding liquidity risks. Funds are raised using a broad range of instruments including deposits, borrowings, and share capital. Different funding sources are mutually coordinated and optimized.

48. Risk management (continued)

Maturity analysis

The remaining contractual maturity of the Group's assets and liabilities as at 31 December 2018 and 31 December 2017 is presented in the tables below:

The items with undefined maturity are included in terms over 5 years, obligatory reserve in the category up to one month and not according to the maturity of the related liabilities. Demand deposits from retail and corporate customers are shown in the category up to one month although the Bank's experience is that these deposits have much longer maturity. Mismatch in the category up to one year would have been be eliminated if their maturity was presented in accordance with expected maturities, and liquid financial assets at fair value through profit or loss for which there is an active secondary market in the one to three months and three-to-12 months categories.

Group 2018 HRK millions	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Assets						
Cash and current accounts with banks	5,306	–	–	–	–	5,306
Obligatory reserve with the Croatian National Bank	1,909	–	–	–	–	1,909
Financial assets at fair value through profit or loss	1,533	–	–	–	–	1,533
Placements with and loans to other banks	1,274	258	–	–	–	1,532
Loans from and advances to customers	2,231	685	2,552	7,521	4,474	17,463
Investment securities	45	922	1,475	3,291	97	5,830
Property, plant and equipment and investment property	–	–	–	–	986	986
Intangible assets	–	–	–	–	257	257
Deferred tax assets	–	–	–	99	–	99
Other assets	110	32	26	82	–	250
Total assets	**12,408**	**1,897**	**4,053**	**10,993**	**5,814**	**35,165**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	40	–	–	–	–	40
Deposits from banks	589	–	–	–	–	589
Deposits from companies and other similar entities	10,930	151	219	67	17	11,384
Deposits from individuals	8,531	1,275	3,344	1,649	50	14,849
Borrowings	33	206	487	1,014	174	1,914
Provisions for liabilities and charges	33	5	20	107	20	185
Other liabilities	281	70	2	7	516	876
Subordinated liabilities	–	–	–	822	–	822
Equity attributable to the equity holders of the parent	–	–	–	–	4,506	4,506
Total liabilities and equity	**20,437**	**1,707**	**4,072**	**3,666**	**5,283**	**35,165**
Maturity gap	**(8,029)**	**190**	**(19)**	**7,327**	**531**	**–**

48. Risk management (continued)

Maturity analysis (continued)

Group 2017 HRK millions	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Assets						
Cash and current accounts with banks	4,708	–	–	–	–	4,708
Obligatory reserve with the Croatian National Bank	1,739	–	–	–	–	1,739
Financial assets at fair value through profit or loss	584	2	365	–	–	951
Placements with and loans to other banks	869	25	–	–	–	894
Loans from and advances to customers	2,358	784	2,870	7,150	4,583	17,745
Investment securities	261	592	1,910	2,760	414	5,937
Financial investments held to maturity	2	–	56	190	31	279
Property, plant and equipment and investment property	–	–	–	–	1,309	1,309
Intangible assets	7	–	–	–	232	239
Deferred tax assets	–	–	–	86	–	86
Other assets	150	6	5	128	2	291
Total assets	**10,678**	**1,409**	**5,206**	**10,314**	**6,571**	**34,178**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	59	–	–	–	–	59
Deposits from banks	1,056	–	–	–	–	1,056
Deposits from companies and other similar entities	9,101	146	199	78	25	9,549
Deposits from individuals	6,917	1,560	4,116	1,580	58	14,231
Borrowings	35	115	774	1,398	250	2,572
Provisions for liabilities and charges	1	1	23	145	3	173
Other liabilities	455	32	88	205	171	951
Current tax liabilities	–	–	70	–	–	70
Subordinated liabilities	–	–	6	–	826	832
Equity attributable to the equity holders of the parent	–	–	–	–	4,685	4,685
Total liabilities and equity	**17,624**	**1,854**	**5,276**	**3,406**	**6,018**	**34,178**
Maturity gap	**(6,946)**	**(445)**	**(70)**	**6,908**	**553**	**–**

48. Risk management (continued)

Maturity analysis (continued)

Bank 2018 HRK millions	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Assets						
Cash and current accounts with banks	5,298	–	–	–	–	5,298
Obligatory reserve with the Croatian National Bank	1,909	–	–	–	–	1,909
Financial assets at fair value through profit or loss	1,019	–	–	–	–	1,019
Placements with and loans to other banks	1,310	233	–	–	–	1,543
Loans from and advances to customers	1,513	601	2,367	7,172	4,446	16,099
Investment securities	43	918	1,450	2,801	97	5,309
Investments in subsidiaries	–	–	39	–	384	423
Property, plant and equipment and investment property	–	–	–	–	507	507
Intangible assets	–	–	–	–	221	221
Deferred tax assets	–	–	–	95	–	95
Other and current tax assets	105	3	36	62	–	206
Total assets	**11,197**	**1,755**	**3,892**	**10,130**	**5,655**	**32,629**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	40	–	–	–	–	40
Deposits from banks	673	–	–	–	–	673
Deposits from companies and other similar entities	11,171	150	217	42	17	11,597
Deposits from individuals	8,526	1,268	3,169	770	50	13,783
Borrowings	9	28	266	533	168	1,004
Provisions for liabilities and charges	31	5	20	93	20	169
Current tax liabilities	–	–	–	–	–	–
Other liabilities	249	66	–	–	–	315
Subordinated liabilities	–	–	–	822	–	822
Equity	–	–	–	–	4,226	4,226
Total liabilities and equity	**20,699**	**1,517**	**3,672**	**2,260**	**4,481**	**32,629**
Maturity gap	**(9,502)**	**238**	**220**	**7,870**	**1,174**	**–**

48. Risk management (continued)

Maturity analysis (continued)

Bank 2017 HRK millions	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Assets						
Cash and current accounts with banks	4,707	–	–	–	–	4,707
Obligatory reserve with the Croatian National Bank	1,739	–	–	–	–	1,739
Financial assets at fair value through profit or loss	518	1	54	–	–	573
Placements with and loans to other banks	869	–	–	–	36	905
Loans from and advances to customers	2,305	519	2,627	6,761	4,241	16,453
Investment securities	55	591	1,910	2,718	343	5,617
Investments in subsidiaries	–	–	–	–	395	395
Property, plant and equipment and investment property	–	–	–	–	492	492
Intangible assets	–	–	–	–	204	204
Deferred tax assets	–	–	–	84	–	84
Other and current tax assets	131	1	2	74	2	210
Total assets	**10,324**	**1,112**	**4,593**	**9,637**	**5,713**	**31,379**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	61	–	–	–	–	61
Deposits from banks	1,093	–	–	–	–	1,093
Deposits from companies and other similar entities	9,375	145	220	52	25	9,817
Deposits from individuals	6,901	1,534	4,002	709	57	13,203
Borrowings	35	42	174	789	197	1,237
Provisions for liabilities and charges	–	–	23	136	3	162
Current tax liabilities	–	–	79	–	–	79
Other liabilities	415	–	14	8	–	437
Subordinated liabilities	–	–	6	–	826	832
Equity	–	–	–	–	4,458	4,458
Total liabilities and equity	**17,880**	**1,721**	**4,518**	**1,694**	**5,566**	**31,379**
Maturity gap	**(7,556)**	**(609)**	**75**	**7,943**	**147**	**–**

48. Risk management (continued)

Market risk

Market risk is the risk of experiencing losses due to adverse changes in market prices, i.e. risk that changes in market prices, such as interest rates, foreign exchange rates and others could affect the Group's income or the value of its holdings of financial instruments. Market risk estimates are based on changes in exchange rates, interest rates, credit spreads, equity and commodity prices, and other market parameters. The Objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Market risk management of the Group and the Bank is conducted in accordance with legislative requirements and directives of domestic and foreign regulators, which is defined in internal policies and procedures which are regularly revised by risk division.

Group, within RBI Group, uses a comprehensive risk management approach for both the trading book and non-trading book Market risks are managed consistently in the trading and non-trading book. The following values are measured and limited on a daily basis in the market risk management system:

- Value-at-Risk (confidence level 99%, holding period 1 day)

Value-at-risk (VaR) is the most important instrument in measuring market risks in normal situation. It represents maximum expected loss that is acceptable for the bank at a certain point of time. The VaR risk measure is a statistically defined estimate of the worst potential loss of a current portfolio, for a specified confidence level, over a given period during which positions can be closed. The Group is using a combination of a hybrid Monte Carlo and historical methods for VaR calculation. This methodology has been developed internally in the RBI Group to monitor the interest rate risk, foreign exchange risk, price risk, and the credit spread risk on the basis of a one-day holding period and a confidence level of 99%. This confidence level is used for internal monitoring. VaR Sensitivity gives a relation between sensitivities of risk factors and VaR change and is used for daily monitoring of VaR and risk management.

The quality of the VaR model is continuously monitored by backtesting and by Distributional test which is performed once a year.

- Stress test

Value-at-risk number provides the maximum losses that will not be exceeded at a certain confidence level under normal market conditions, but does not provide additional information on potential effects in the case of extreme market movements. So, in order to take these events into account as well, Group carries out daily stress tests. In this way the Bank simulates possible crisis situations and their impact on the current positions. Stress testing is used to assess the impact of market risk on the portfolio of the Group's total positions and limits in extraordinary circumstances (market shocks).

Stress testing is conducted on a daily basis, and the results are included in the regular daily reports.

- Positions and sensitivities limits (to changes in exchange rates, interest rates, etc.)

Sensitivity limits are used to avoid clustering in normal market situations and are the main management instruments in stress situations or in markets that are illiquid or structurally difficult to measure.

- Stop-loss limits

This limit supports traders' discipline in measuring proprietary trading positions and severely limiting losses rather than allowing them to accumulate.

High-water mark year-to-date stop loss limits are applied to the cumulative profit and losses on a year-to date basis. S/L limits have to be defined and applied for all positions classified under IFRS as FVTOCI, HFT_FVTPL or FVTPL_DES_FT.

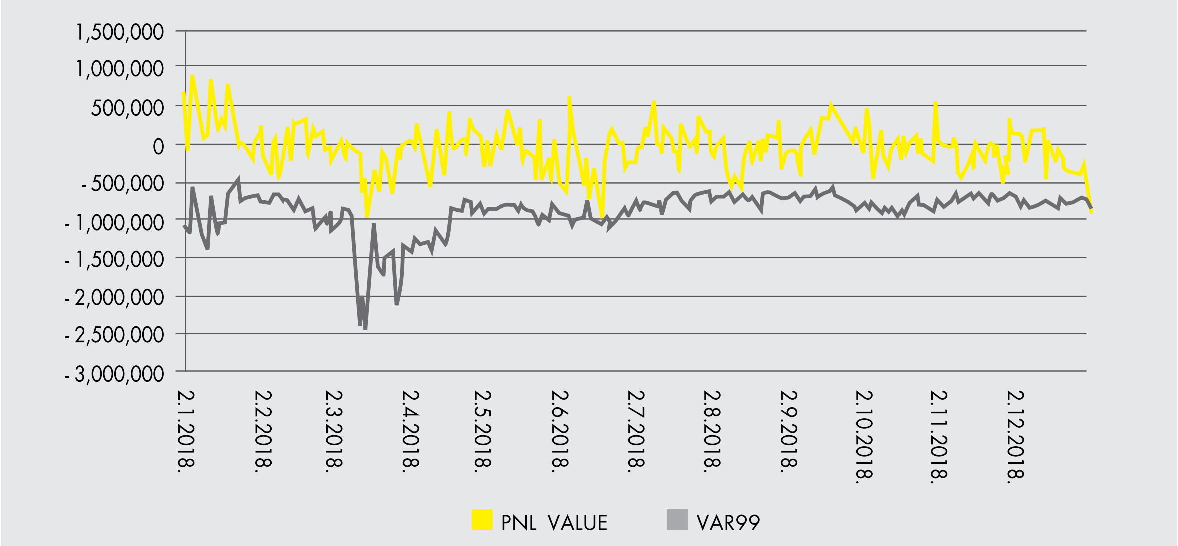
The limit resets to zero at the beginning of each calendar year, whereas the loss has to be calculated versus the maximum profit in the year-to-date period (total return).

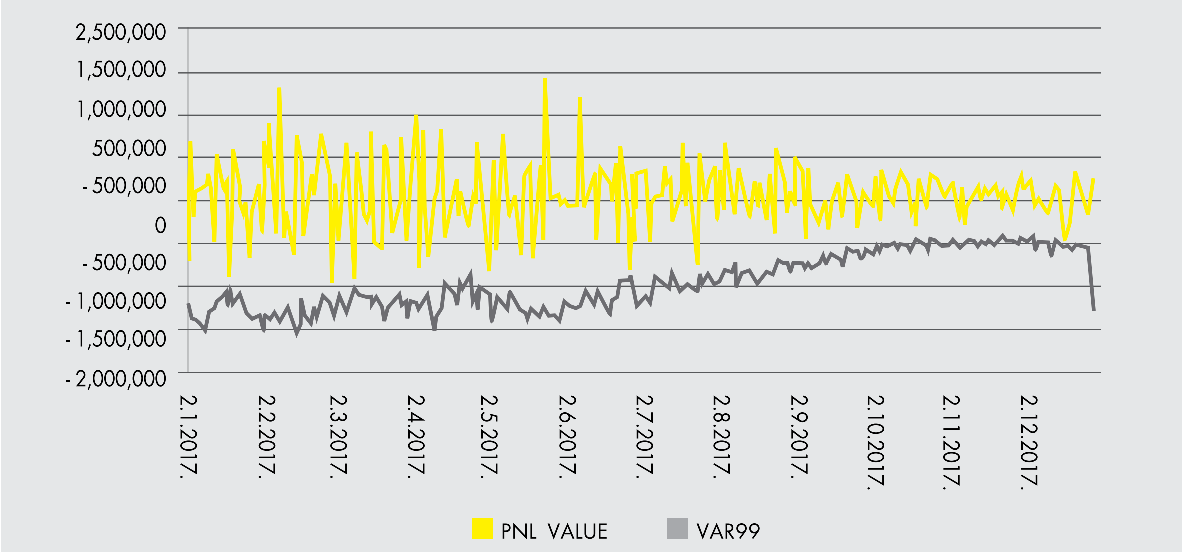
48. Risk management (continued)

Market risk (continued)

The following table presents the Value-at-Risk for 2018 and 2017:

HRK millions	December 2018	December 2017	Average	min	max
Interest rate risk					
- trading book	0.76	0.96	0.89	0.44	1,37
- banking book	2.21	1.60	1.81	1.30	4.30
Currency risk	1.16	1.47	0.75	0.10	2.56
Credit Spread Risk	4.59	9.49	5.56	2.05	12.22
Price risk	0.16	0.07	0.11	0.07	0.16
Total VaR	**6.00**	**9.75**	**6.18**	**3.45**	**12.56**





48. Risk management (continued)

Market risk (continued)

The efficiency of VaR model is periodically tested with backtesting procedures. Backtesting methods comprise comparison of 1-day VaR figures with appropriate (hypothetical) statement of comprehensive income figures as seen on the next working day (i.e. over the horizon for which the VaR figure was calculated). Backtesting breach is recorded on date on which (hypothetical) statement of comprehensive income is negative and its absolute value is higher than the VaR calculated for that date (i.e. when the hypothetical loss is greater than the VaR). The high number of backtesting breaches detected during a certain period, in an amount that is higher than the one expected considering the confidence level chosen during the calculation of VaR figures, can indicate that there are certain deficiencies in the VaR model.

As the figure shows, during 2018 one backtesting breach was recorded, which is in accordance with expectations and selected statistical materiality.

Interest rate risk

Interest rate risk is reflected as negative impact of interest rates on the present value of future cash flows, and hence the net interest income and other cash flows are sensitive to interest rate changes.

The primary sources of interest rate risk are as follows:
- repricing risk is a result of a timing differences in the maturity (for fix-rate) and repricing mismatch (for floating-rate) of assets and liabilities as well as off-balance-sheet positions;
- yield curve risk arises when unanticipated shifts of the yield curve have adverse effect on a bank's income or underlying economic value;
- basis risk arises from imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar repricing characteristics (except the type of interest rate);
- Optionality risk.

Risk management activities are aimed at optimizing net interest income, given market interest rate levels, consistent with the Group's business strategies. To achieve its risk management objectives, the Group also uses interest rate derivatives.

Interest rate risk in trading book

The following two tables show the largest present value changes for the trading book (BPV per currencies for which this change is material) for 2018 and 2017:

BPV / Currency in HRK	EUR	USD	HRK
31 December 2018	121,102.83	(19,869.55)	(137,231.24)
Average	91,997.14	(18,200.81)	(156,234.72)
Minimum	(52,872.61)	(26,702.89)	(270,844.87)
Maximum	233,884.35	(6,750.10)	(3,858.66)

BPV / Currency in HRK	EUR	USD	HRK
31 December 2017	(52,662.53)	(27,030.54)	(3,217.62)
Average	100,798.91	(16,359.93)	(96,391.45)
Minimum	(52,662.53)	(57,995.61)	(158,081.87)
Maximum	201,188.07	(5,049.43)	(3,217.62)

Total BPV for trading book for 31 December 2018 was HRK 279.9 thousand in respect to 29 December 2017 when it was HRK 88.9 thousand.

Asset-liability risk management activities are conducted in the context of the Group's sensitivity to interest rate changes. Decisions are based on various interest income analyses and simulations that ensure proper interest rate sensitivity in line with expected changes in market rates and overall risk appetite.

The following two tables show the largest present value changes for the non-trading book (BPV per currencies for which this change is material) for 2018 and 2017:

48. Risk management (continued)

Interest rate risk (continued)

BPV / Currency in HRK	HRK	EUR	USD
31 December 2018	(230,623.21)	558,163.44	5,598.29
Average	(82,439.21)	251,133.70	29,778.25
Minimum	(281,490.34)	(162,895.36)	(22,976.43)
Maximum	232,974.79	794,156.25	71,212.75

BPV / Currency in HRK	HRK	EUR	USD
31 December 2017	(59,567.68)	(97,318.23)	65,968.65
Average	(242,810.66)	(1,047,555.54)	26,040.91
Minimum	(372,670.36)	(1,594,795.86)	(41,954.74)
Maximum	(59,567.68)	(44,333.21)	67,191.53

Total BPV for non - trading book for 31 December 2018 amounted to HRK 798.45 thousand in respect to 29 December 2017 when it was HRK 236.7 thousand.

Interest rate risk in the banking book is not only measured in a value-at-risk framework but also managed by the traditional tools of nominal and interest rate gap analyses. For the purpose of managing and monitoring of interest rate risk exposures via analyses of the effect on the market value of own funds, the Bank applies an externally defined Basel II methodology, which implies measuring the effects that parallel shift of referent yield curve for one of the following scenarios (one that have the most disadvantageous result for the Bank):

- Shift for 200 basis points
- - Shift of the curve for 1. or 99. percentile of daily changes in interest rates

In HRK	31 December 2018	31 December 2017
EUR	18,531	108,320
HRK	97,295	79,568
Other	(6,732)	(20,289)
Total	**109,094**	**167,599**
%	**2.70%**	**3.83%**

The Group measures exposure to interest rate risk and influence to net interest income, in accordance with the Decision on management with the interest risk in the trading book of the bank and in accordance with EBA guidance for management of the interest rate risk.

In HRK	31 December 2018	31 December 2017
Net interest income	116,884	112,273

48. Risk management (continued)

Equity price risk

Equity price risk is the possibility that equity prices will fluctuate, affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment. The primary exposure to equity prices arises from equity securities measured at fair value through profit and loss.

Equity Delta is the indicator of the Bank's exposure to equity price risk arising from positions in equity securities and equity derivatives held for trading. The Bank has established equity delta limits per position in a single instrument and a total equity delta limit as well as VaR limit for equity positions in trading book portfolio.

For the monitoring of its equity portfolio the Bank analyses the equity portfolio's sensitivity through Equity delta limits and VaR limits.

Exchange rate risks

The Group is exposed to currency risk/exchange rate risk which denotes the risk that one suffers losses due to open foreign exchange position.

Foreign currency exposure arises from foreign-currency denominated credit, deposit-taking, investment and trading activities. It is monitored daily in accordance to legislation and internally set limits, for each currency and for the total statement of financial position denominated in or linked to foreign currency.

The Group manages its currency risk by setting principles and limits for foreign currency exposures and by monitoring these limits (including stop-loss limits). The Group directs its business activities towards trying to minimize the gap between assets and liabilities denominated in or linked to foreign currency, and maintaining daily business activities within daily allowed open limits per currency.

The Group is primarily exposed to EUR. In order to protect itself against currency risk, Group uses derivative financial instruments.

48. Risk management (continued)

Currency analysis

Group 2018 HRK millions	EUR	EUR linked HRK	CHF	CHF linked HRK	Other foreign currencies	Total foreign currencies	Domestic currency	Total currencies
Assets								
Cash and current accounts with banks	154	–	39	–	78	271	5,035	5,306
Obligatory reserve with the Croatian National Bank	–	–	–	–	–	–	1,909	1,909
Financial assets at fair value through profit or loss	706	111	3	–	101	921	612	1,533
Placements with and loans to other banks	1,044	2	–	–	423	1,469	63	1,532
Loans from and advances to customers	2,521	6,848	–	10	37	9,416	8,047	17,463
Investment securities	2,704	999	–	–	980	4,683	1,147	5,830
Property, plant and equipment and investment property	–	–	–	–	–	–	987	987
Intangible assets	–	–	–	–	–	–	256	256
Deferred tax assets	–	–	–	–	–	–	99	99
Other assets	10	12	–	–	2	24	226	250
Total assets	**7,139**	**7,972**	**42**	**10**	**1,621**	**16,784**	**18,381**	**35,165**
Liabilities and equity								
Financial liabilities at fair value through profit or loss	29	–	–	–	4	33	7	40
Deposits from banks	41	–	22	–	192	255	334	589
Deposits from companies and other similar entities	2,833	34	22	–	502	3,396	7,988	11,384
Deposits from individuals	8,395	885	297	–	1,453	11,030	3,819	14,849
Borrowings	1,318	–	–	–	–	1,318	596	1,914
Provisions for liabilities and charges	35	–	–	–	2	37	148	185
Other liabilities	26	9	–	–	2	37	839	876
Subordinated liabilities	822	–	–	–	–	822	–	822
Equity attributable to the equity holders of the parent	–	–	–	–	–	–	4,506	4,506
Total liabilities and equity	**13,504**	**928**	**341**	**–**	**2,155**	**16,928**	**18,237**	**35,165**
Currency gap	**(6,365)**	**7,044**	**(299)**	**10**	**(534)**	**(144)**	**144**	**–**

48. Risk management (continued)

Currency analysis (continued)

Group 2018 HRK millions	EUR	EUR linked HRK	CHF	CHF linked HRK	Other foreign currencies	Total foreign currencies	Domestic currency	Total currencies
Assets								
Cash and current accounts with banks	121	–	31	–	87	239	4,469	4,708
Obligatory reserve with the Croatian National Bank	–	–	–	–	–	–	1,739	1,739
Financial assets at fair value through profit or loss	186	388	–	–	2	576	375	951
Placements with and loans to other banks	867	–	–	–	2	869	25	894
Financial assets available for sale	3,039	778	–	–	830	4,647	1,290	5,937
Loans from and advances to customers	2,206	8,211	–	18	48	10,483	7,262	17,745
Financial investments held to maturity	11	237	–	–	–	248	31	279
Property, plant and equipment and investment property	–	–	–	–	–	–	1,309	1,309
Intangible assets	–	–	–	–	–	–	239	239
Deferred tax assets	–	–	–	–	–	–	86	86
Other assets	21	19	–	–	1	41	250	291
Total assets	**6,451**	**9,633**	**31**	**18**	**970**	**17,103**	**17,075**	**34,178**
Liabilities and equity								
Financial liabilities at fair value through profit or loss	15	–	1	–	6	22	37	59
Deposits from banks	282	–	23	–	501	806	250	1,056
Deposits from companies and other similar entities	2,737	46	15	–	499	3,297	6,252	9,549
Deposits from individuals	8,280	901	280	–	1,522	10,983	3,248	14,231
Borrowings	1,541	333	–	–	–	1,874	698	2,572
Provisions for liabilities and charges	10	–	–	–	–	10	163	173
Current tax liabilities	–	–	–	–	–	–	70	70
Other liabilities	29	350	–	–	1	380	571	951
Subordinated liabilities	832	–	–	–	–	832	–	832
Equity attributable to the equity holders of the parent	–	–	–	–	–	–	4,685	4,685
Total liabilities and equity	**13,726**	**1,630**	**319**	**–**	**2,529**	**18,204**	**15,974**	**34,178**
Currency gap	**(7,275)**	**8,003**	**(288)**	**18**	**(1,559)**	**(1,101)**	**1,101**	**–**

48. Risk management (continued)

Currency analysis (continued)

Bank 2018 HRK millions	EUR	EUR linked HRK	CHF	CHF linked HRK	Other foreign currencies	Total foreign currencies	Domestic currency	Total currencies
Assets								
Cash and current accounts with banks	130	–	39	–	78	247	5,051	5,298
Obligatory reserve with the Croatian National Bank	–	–	–	–	–	–	1,909	1,909
Financial assets at fair value through profit or loss	416	111	3	–	101	631	388	1,019
Placements with and loans to other banks	1,082	2	–	–	423	1,507	36	1,543
Investment securities	2,691	5,514	–	10	37	8,252	7,847	16,099
Loans from and advances to customers	2,705	771	–	–	980	4,456	853	5,309
Investments in subsidiaries	–	–	–	–	–	–	423	423
Property, plant and equipment and investment property	–	–	–	–	–	–	507	507
Intangible assets	–	–	–	–	–	–	221	221
Deferred tax assets	–	–	–	–	–	–	95	95
Other and current tax assets	10	–	–	–	2	12	194	206
Total assets	**7,034**	**6,398**	**42**	**10**	**1,621**	**15,105**	**17,524**	**32,629**
Liabilities and equity								
Financial liabilities at fair value through profit or loss	29	–	–	–	4	33	7	40
Deposits from banks	62	–	22	–	192	276	397	673
Deposits from companies and other similar entities	2,873	–	22	–	502	3,397	8,200	11,597
Deposits from individuals	8,395	–	297	–	1,453	10,145	3,638	13,783
Borrowings	528	–	–	–	–	528	476	1,004
Provisions for liabilities and charges	34	–	–	–	2	36	133	169
Current tax liabilities	–	–	–	–	–	–	–	–
Other liabilities	26	–	–	–	2	28	287	315
Subordinated liabilities	822	–	–	–	–	822	–	822
Equity	–	–	–	–	–	–	4,226	4,226
Total liabilities and equity	**12,769**	**–**	**341**	**–**	**2,155**	**15,265**	**17,364**	**32,629**
Currency gap	**(5,735)**	**6,398**	**(299)**	**10**	**(534)**	**(160)**	**160**	**–**

48. Risk management (continued)

Currency analysis (continued)

Bank 2017 HRK millions	EUR	EUR linked HRK	CHF	CHF linked HRK	Other foreign currencies	Total foreign currencies	Domestic currency	Total currencies
Assets								
Cash and current accounts with banks	121	–	31	–	87	239	4,468	4,707
Obligatory reserve with the Croatian National Bank	–	–	–	–	–	–	1,739	1,739
Financial assets at fair value through profit or loss	128	191	–	–	2	321	252	573
Placements with and loans to other banks	867	–	–	–	2	869	36	905
Financial assets available for sale	3,039	661	–	–	830	4,530	1,087	5,617
Loans from and advances to customers	2,206	7,195	–	18	48	9,467	6,986	16,453
Investments in subsidiaries	–	–	–	–	–	–	395	395
Property, plant and equipment and investment property	–	–	–	–	–	–	492	492
Intangible assets	–	–	–	–	–	–	204	204
Deferred tax assets	–	–	–	–	–	–	84	84
Other and current tax assets	21	–	–	–	1	22	188	210
Total assets	**6,382**	**8,047**	**31**	**18**	**970**	**15,448**	**15,931**	**31,379**
Liabilities and equity								
Financial liabilities at fair value through profit or loss	17	–	1	–	6	24	37	61
Deposits from banks	291	–	23	–	501	815	278	1,093
Deposits from companies and other similar entities	2,780	–	15	–	499	3,294	6,523	9,817
Deposits from individuals	8,281	4	280	–	1,522	10,087	3,116	13,203
Borrowings	326	333	–	–	–	659	578	1,237
Provisions for liabilities and charges	10	–	–	–	–	10	152	162
Current tax liabilities	–	–	–	–	–	–	79	79
Other liabilities	29	11	–	–	1	41	396	437
Subordinated liabilities	832	–	–	–	–	832	–	832
Equity	–	–	–	–	–	–	4,458	4,458
Total liabilities and equity	**12,566**	**348**	**319**	**–**	**2,529**	**15,762**	**15,617**	**31,379**
Currency gap	**(6,184)**	**7,699**	**(288)**	**18**	**(1,559)**	**(314)**	**314**	**–**

48. Risk management (continued)

Operational risk

Operational risk is defined as the risk of financial losses resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk, but excludes strategic and reputational risk.
With the aim of efficient operational risk management, the Group built system based on standards and principles defined in EU directives and Regulations, Credit Institutions Act and CNB Decisions, Basel Committee documents and RBI Group Directives. The Group's Operational Risk Management Framework consists of processes, structures, controls for the governance, identification, measurement, management, monitoring, capital computation and attribution, risk control and mitigation of loss resulting from inadequate or failed internal processes, people and systems or from external events. It is structured to increase transparency of operational risks across the Group, strengthen management of operational risk exposures and ensure full compliance with regulatory requirements.

Roles and Responsibilities

The Group fosters an open environment and culture, while all employees of the Group, through their individual roles and responsibilities, contribute to maintaining an effective Operational Risk Management Framework. Awareness of the culture of risk management is continuously executed through education of all participants of the process and improvement of the reporting system.

System of responsibilities for managing operational risk is based on three lines of defence which contribute in maintaining an effective Operational Risk Management framework.

- The first line of defence is the risk originating units whose business activities give rise to risk and consequently these are the risk originating units and they actively manage with own operational risk.
- The second line of defence provides an independent assessment of operational risk, oversight and challenges the first line of defence and is comprised of the Management Board member responsible for risks, the Committee for management of the operational risk and controls and Control of the operating risks. The Committee oversees the activities in relation to operating risks, aligns suggestions for overcoming of the risks and provides recommendations for management of the operating risk,
- The third line of defence is Internal Audit, it reviews effectiveness and suitability of the general risk management processes.

Risk identification, measurement, management and reporting

Operational Risk is managed within the Risk Management cycle, which encompasses the identification, measurement, management and reporting of risk.
Operational risks in the Group are identified on a proactive and regular basis within: products, processes, systems and external factors.

Operational Risk measurement can be both quantitative and qualitative in nature and include the following instruments:
- Risk assessments serve to increase operational risk awareness, identify operational risks and mitigate identified operational risks.
- Early Warning Indicators provide an early warning signal for potential issues or changes in Operational Risk Profile that may warrant management action.
- Event Data Collection and analysis of internal operational risk events provides meaningful information for measuring the impact of operational risk events and the effectiveness of the internal control environment.
- Scenario Analysis is a process by which the Group considers the impact of extreme, but plausible events on its operations and assigns likelihood and severity estimations to the range of possible outcomes and enables starting of measures to overcome risk that result from tail events.

Operational risk management strategies are defined through management framework, risk appetite and operational risk management measures to prevent operational risk events and reduce operational risk losses.

Risk mitigation represents managing the risk exposure, by taking the one of the following actions: risk avoidance, risk reduction, risk transfer and risk acceptance by informed decision. The Group defined triggers within risk identification tools which result in mandatory mitigation actions, however the development of mitigation actions is conducted as part of everyday business activities whenever they are identified.

Reporting supports the Operational Risk Management cycle by ensuring constant and timely information flow to the relevant decision making bodies. In this way, operational risk reporting supports risk transparency and the integration of Operational Risk Management activities into day-to-day business operations.
The Group uses the standardized approach for calculation of regulatory capital requirement for operational risk.

49. Fair value of financial instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market condition (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

Financial instruments at fair value through profit or loss and at fair value through other comprehensive income are measured at fair value. Loans and receivables and held-to-maturity assets are measured at amortised cost less impairment.

The carrying amount of cash and current accounts with banks, placements with banks, deposits from banks and deposits from companies and similar entities, reflect their fair value due to the short-term maturity.

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

Loans and advances

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

Bank and customer deposits

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

Borrowings

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

49. Fair value of financial instruments (continued)

The following table analyses financial instruments that have been measured at fair value after initial recognition, classified into three levels, depending on the availability of fair value indicators (the table below excludes accrued interest):

- Level 1 of available observable indicators - fair value indicators are derived from (non-adjusted) prices quoted on active markets for similar assets and similar liabilities;
- Level 2 of available observable indicators - fair value indicators are derived from other data, not from quoted prices from Level 1, related to direct observation of assets or liabilities, ie their prices or are obtained indirectly, ie derived from price; and
- Level 3 Indicator - Indicators derived using valuation methods in which asset data or liabilities that are not based on observable market data (inexhaustible input data) are used as input data.

Group 2018 HRK millions	Carrying amount	Fair value Level 1	Level 2	Level 3	Total fair value
Cash and current accounts with banks	5,306	–	–	5,306	5,306
Obligatory reserve with the Croatian National Bank	1,909	–	–	1,909	1,909
Financial assets at fair value through profit or loss					
Financial assets for trading					
Debt securities	774	390	384	–	774
Equity securities	5	5	–	–	5
Derivative financial assets	50	–	50	–	50
Financial assets designated at fair value through profit or loss					
Debt securities	646	324	322	–	646
Equity securities	1	1	–	–	1
Investment in investment funds	57	57	–	–	57
Placements with and loans to other banks	1,532	–	–	1,532	1,532
Loans from and advances to customers	17,463	–	–	17,450	17,450
Investment securities at amortised cost	535	562	–	–	562
Investment securities at FVOCI					
Debt securities	5,262	4,612	650	–	5,262
Equity securities	33	5	27	1	33
Total	**33,573**	**5,956**	**1,433**	**26,198**	**33,587**
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities	40	1	39	–	40
Deposits from banks	589	–	–	589	589
Deposits from companies and other similar entities	11,384	–	–	11,352	11,352
Deposits from individuals	14,849	–	–	14,818	14,818
Borrowings	1,914	–	–	1,961	1,961
Subordinated liabilities	822	–	–	868	868
Total	**29,598**	**1**	**39**	**29,588**	**29,628**

49. Fair value of financial instruments (continued)

Group 2017 HRK millions	Carrying amount	Level 1	Fair value Level 2	Level 3	Total fair value
Cash and current accounts with banks	4,708	–	–	4,708	4,708
Obligatory reserve with the Croatian National Bank	1,739	–	–	1,739	1,739
Financial assets at fair value through profit or loss					
Financial assets for trading					
Debt securities	492	372	120	–	492
Equity securities	1	1	–	–	1
Derivative financial assets	29	–	29	–	29
Fair value of contracted OTC spot transactions	4	–	4	–	4
Financial assets designated at fair value through profit or loss					
Debt securities	409	86	323	–	409
Equity securities	2	2	–	–	2
Investment in investment funds	14	14	–	–	14
Placements with and loans to other banks	894	–	–	894	894
Loans from and advances to customers	17,745	–	–	18,083	18,083
Investment securities at amortised cost	279	314	–	–	314
Investment securities at FVOCI					
Debt securities	5,906	5,787	119	–	5,906
Equity securities	31	7	22	2	31
Total	**32,253**	**6,583**	**617**	**25,426**	**32,626**
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities	48	–	48	–	48
Fair value of contracted OTC spot transactions	11	–	11	–	11
Deposits from banks	1,056	–	–	1,056	1,056
Deposits from companies and other similar entities	9,549	–	–	9,548	9,548
Deposits from individuals	14,231	–	–	14,188	14,188
Borrowings	2,572	–	–	2,564	2,564
Subordinated liabilities	832	–	–	815	815
Total	**28,299**	**–**	**59**	**28,171**	**28,230**

INTRODUCTION
2018 BUSINESS DEVELOPMENTS
RBI AT A GLANCE
FINANCIAL STATEMENTS
CONTACTS

49. Fair value of financial instruments (continued)

Bank		Fair value			
2018 HRK millions	Carrying amount	Level 1	Level 2	Level 3	Total fair value
Cash and current accounts with banks	5,298	–	–	5,298	5,298
Obligatory reserve with the Croatian National Bank	1,909	–	–	1,909	1,909
Financial assets at fair value through profit or loss					
Financial assets for trading					
Debt securities	774	390	384	–	774
Equity securities	5	5	–	–	5
Derivative financial assets	52	–	52	–	52
Financial assets designated at fair value through profit or loss					
Debt securities	188	159	29	–	188
Placements with and loans to other banks	1,543	–	–	1,543	1,543
Loans from and advances to customers	16,099	–	–	16,041	16,041
Investment securities at amortised cost					
Debt securities	252	253	–	–	253
Investment securities at FVOCI					
Debt securities	5,024	4,431	593	–	5,024
Equity securities	33	5	27	1	33
Investments in subsidiaries	423	–	–	423	423
Total	**31,600**	**5,243**	**1,085**	**25,215**	**31,543**
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities	40	1	39	–	40
Deposits from banks	673	–	–	673	673
Deposits from companies and other similar entities	11,597	–	–	11,600	11,600
Deposits from individuals	13,783	–	–	13,780	13,780
Borrowings	1,004	–	–	1,038	1,038
Subordinated liabilities	822	–	–	868	868
Total	**27,919**	**1**	**39**	**27,959**	**27,999**

49. Fair value of financial instruments (continued)

Bank 2017 HRK millions	Carrying amount	Fair value Level 1	Level 2	Level 3	Total fair value
Cash and current accounts with banks	4,707	–	–	4,707	4,707
Obligatory reserve with the Croatian National Bank	1,739	–	–	1,739	1,739
Financial assets at fair value through profit or loss					
Financial assets for trading					
Debt securities	492	372	120	–	492
Equity securities	1	1	–	–	1
Derivative financial assets	35	–	35	–	35
Fair value of contracted OTC spot transactions	4	–	4	–	4
Financial assets designated at fair value through profit or loss					
Debt securities	41	14	27	–	41
Placements with and loans to other banks	905	–	–	909	909
Loans from and advances to customers	16,453	–	–	16,804	16,804
Investment securities at FVOCI					
Debt securities	5,586	5,487	99	–	5,586
Equity securities	31	7	22	2	31
Investments in subsidiaries	395	–	–	395	395
Total	**30,389**	**5,881**	**307**	**24,556**	**30,744**
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities	50	–	50	–	50
Fair value of contracted OTC spot transactions	11	–	11	–	11
Deposits from banks	1,093	–	–	1,093	1,093
Deposits from companies and other similar entities	9,817	–	–	9,816	9,816
Deposits from individuals	13,203	–	–	13,191	13,191
Borrowings	1,237	–	–	1,229	1,229
Subordinated liabilities	832	–	–	815	815
Total	**26,243**	**–**	**61**	**26,144**	**26,205**

49. Fair value of financial instruments (continued)

The following table shows adjustment between initial and final balance for measurement of fair value in level 3 inside hierarchy of fair values:

Group/Bank	Trading instruments	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income
	Equity instruments	Debt securities issued by companies	Equity securities
At 1 January 2017	**–**	**3**	**60**
Gains and losses in profit and loss	–	(3)	–
Gains and losses in other comprehensive income	–	–	(2)
At 31 December 2017	**–**	**–**	**2**
Gains and losses in profit and loss	–	–	–
Gains and losses in other comprehensive income	–	–	(1)
At 31 December 2018	**–**	**–**	**1**

50. Capital management

From 1 January 2014 credit institutions in Croatia are obliged to calculate and report prudential requirements according to Capital Requirements Regulation (EU) No 575/2013 ("CRR"), Directive 2013/36/EU technical standards and other relevant regulations prescribed by European Banking Authority ("EBA") and local regulator CNB.

The Group's and the Bank's regulatory capital requirements are based on Basel III methodology.

Group, in accordance with the regulatory requirements of CNB and EBA regulations, comprises Raiffeisenbank Austria and its subsidiaries that form group of credit institutions. For the purpose of regulatory capital calculation the Group consist of: Raiffeisenbank Austria d.d., Raiffeisen stambena štedionica d.d, Raiffeisen Leasing d.o.o., Raiffeisen Consulting d.o.o., Raiffeisen Factoring d.o.o. (2017: Raiffeisenbank Austria d.d., Raiffeisen stambena štedionica d.d, Raiffeisen Leasing d.o.o., Raiffeisen Consulting d.o.o., Raiffeisen Factoring d.o.o.).

Regulatory capital consists of Common Equity Tier 1 ("CET1") capital and Tier 2 ("T2") capital. CET1 include ordinary shares and related share premium, retained earnings, reserves, deductions for intangible assets, unrealised fair value losses on financial instruments at fair value through other comprehensive income and value adjustment for prudent valuations and goodwill from acquisition of 100% of stake in Raiffeisen Leasing d.o.o.. T2 capital includes qualifying subordinated liabilities.

Prescribed minimal capital ratios (Article 92 CRR) are:

- Common Equity Tier 1 capital ratio of 4.5% of the total risk exposure amount
- Tier 1 capital ratio of 6% of the total risk exposure amount
- Total capital ratio of 8% of the total risk exposure amount.

Additionally, in accordance to Article 129 and 133 of Directive 2013/36/EU and article 117 and 130 of CNB Credit Institutions Act, the Group and the Bank are obliged to maintain capital buffers:

- Capital conservation buffer of 2.5% of the total risk exposure amount
- Systemic risk buffer in the amount of 3% of the total risk exposure amount.

50. Capital management (continued)

HRK millions	Group 2018	Group 2017	Bank 2018	Bank 2017
Regulatory capital				
Tier 1 capital				
Common Equity Tier 1 ("CET1") capital				
Issued share capital	3,621	3,621	3,621	3,621
Share premium	12	12	12	12
Retained earnings (excluding profit for the period)	106	558	1	222
Net profit for the period	–	(245)	–	–
Legal, statutory and other reserves	173	173	173	173
Accumulated other comprehensive income	68	–	65	–
Deductions, in accordance with the CNB regulations				
Intangible assets	(231)	(215)	(224)	(209)
Value adjustment due to prudent valuations	(21)	(28)	(20)	(26)
Goodwill	(27)	(27)	–	–
Unrealised losses on financial assets at fair value through other	–	(11)	–	(11)
Deductions for investments in banks and financial institutions	**(23)**	**(23)**	**(23)**	**(23)**
Total Common Equity Tier 1 capital	**3,678**	**3,815**	**3,605**	**3,759**
Tier 2 capital	**443**	**614**	**443**	**614**
Total Own Funds	**4,121**	**4,429**	**4,048**	**4,373**
Total risk-weighted assets	**21,331**	**21,624**	**19,651**	**19,449**
Capital adequacy ratio	**19.32%**	**20.48%**	**20.60%**	**22.48%**

During 2018, the capital adequacy ratio of the Group and the Bank was above the prescribed minimum.

51. Post balance sheet events

Optimization of capital structure

On 4 March 2019, the Bank issued a EUR 40 million bond with a decision by the CNB to meet the requirements for allocating additional capital. The bond was issued without a maturity date at a floating interest rate of 12M EURIBOR + 9.25%, contracted with the "zero floor" and meets the requirements for classification as an equity instrument. The Bank will present this instrument in the financial statements at "Other equity instruments" at nominal kuna value, at the exchange rate on 8 March 2019, which is the date of recognition of the instrument in the Bank's additional capital. The allocation of interest on the instrument will be paid out from the net profit after tax in accordance with the terms and conditions of the issue.

The purpose of this instrument was to optimize the capital structure of the Bank, whereby on 18 March 2019, the Bank made an early, partial purchase of an additional equity instrument in the amount of EUR 40 million, with initial maturity on 20 February 2021.

Court decisions on consumer loans in Swiss francs

At the end of March, the Supreme Court issued revisions of legitimate decisions of second instance courts in individual litigation that consumers as individuals launched against banks for lending by contracting a currency clause in Swiss francs. Although none of the three audits published relate to a dispute initiated against the Bank, the Supreme Court ruling could affect the frequency of disputes that individuals are initiating against the Bank.

The Bank monitors the prosecutor's claims in consumer disputes initiated and assesses the possible impact of court decisions and the Supreme Court's review of the outcome of disputes that consumers are launching against the Bank. The Bank forms adequate risk provisions in accordance with the assessment of its position in these disputes.

Dividend pay-out from retained earnings

On 13 February 2019, the General Assembly of the Bank issued a decision on the payment of dividends from retained earnings, amounting to HRK 135 million, payable upon fulfilment of conditions prescribed by Article 312a of the Credit Institutions Act.

Appendix I

Supplementary schedules for the Croatian National Bank

Pursuant to the Croatian Accounting Law (Official Gazette 78/15, 134/15, 120/16, 116/18) the Croatian National Bank issued a Decision on the Structure and Content of the Annual Financial Statements of Credit Institutions (Official Gazette 42/18). The following tables present financial statements (schedules) prepared in accordance to the above mentioned Decision. As the format of the statements that are prepared in accordance with the Decision significantly changed in 2018, it was not practical to present the reconciliation of comparative information for 2017.

Statement of financial position (Balance sheet)

Assets Millions HRK	Group 2018	Bank 2018
1. Cash and cash equivalents, central bank receivables and other demand deposits (from 2 to 4)	6,851	5,322
2. Cash in hand	1,049	1,049
3. Cash receivables from central banks	4,160	4,160
4. Other demand deposits	1,642	113
6. Financial assets for trading	828	831
10. Non–trading financial assets mandatorily at fair value through profit or loss	–	36
14. Financial assets at fair value through profit or loss	188	188
17. Financial assets at fair value through other comprehensive income	5,264	5,057
21. Financial assets at amortised cost	19,811	19,783
25. Fair value changes of the hedged items in portfolio hedge of interest rate risk	5	5
26. Investments in subsidiaries, joint ventures and associates	175	423
27. Tangible assets	991	507
28. Intangible assets	258	224
29. Tax assets	127	120
30. Other assets	153	129
32. TOTAL ASSETS (1. + 5. + 10. + 14. + 17. + 21. + from 24. to 31.)	**34,651**	**32,625**
Liabilities		
33. Financial liabilities for trading	30	30
43. Financial liabilities at amortised cost	29,666	27,869
44. Deposits	29,628	27,866
46. Other financial liabilities	38	3
47. Derivatives – Hedge accounting	10	10
49. Provisions	206	189
50. Tax liabilities	13	–
52. Other liabilities	326	292
TOTAL LIABILITIES (33. + 39. + 43. + from 47. to 53.)	**30,251**	**28,390**
Equity		
55. Share capital	3,621	3,621
56. Share premium	12	12
59. Accumulated other comprehensive income	68	65
60. Retained earnings	241	136
62. Other reserves	182	182
64. Profit or loss attributable to owners of the parent	276	219
67. TOTAL EQUITY (from 55. to 66.)	**4,400**	**4,235**
68. TOTAL LIABILITIES AND EQUITY (54. + 67.)	**34,651**	**32,625**

Appendix I

Supplementary schedules for the Croatian National Bank (continued)

Income statement Millions HRK	Group 2018	Bank 2018
1. Interest income	1,031	952
2. (Interest expense)	(165)	(125)
4. Dividend income	79	79
5. Fee and commission income	689	685
6. (Fee and commission expense)	(390)	(386)
7. Gains or (–) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	184	184
8. Gains or (–) losses on financial assets and liabilities held for trading, net	149	156
10. Gains or (–) losses on non–trading financial assets mandatorily at fair value through profit or loss, net	(3)	(2)
12. Exchange differences [gain or (–) loss], net	(1)	(14)
13. Gains or (–) losses on derecognition of non–financial assets, net	14	–
14. Other operating income	103	18
15. (Other operating expense)	(84)	(79)
16. TOTAL OPERATING INCOME, NET (1. – 2. – 3. + 4. + 5. – 6. + from 7. to 14. – 15.)	**1,606**	**1,468**
17. (Administrative expense)	(733)	(688)
18. (Depreciation)	(137)	(81)
19. Modification gains or (–) losses, net	(15)	(15)
20. (Provisions or (–) reversal of provisions)	(19)	(13)
21. (Impairment or (–) reversal of impairment on financial assets not measured at fair value through profit or loss)	(400)	(393)
22. ((Impairment or (–) reversal of impairment of investments in subsidiaries, joint ventures and associates))	–	(39)
27. PROFIT OR (–) LOSS BEFORE TAX FROM CONTINUING OPERATIONS (16. – 17. – 18. + 19. – from 20. to 23. + from 24. to 26.)	**302**	**239**
28. (Tax expense or (–) income related to profit or loss from continuing operations)	(26)	(20)
29. PROFIT OR (–) LOSS AFTER TAX FROM CONTINUING OPERATIONS (27. – 28.)	**276**	**219**
33. PROFIT OR (–) LOSS FOR THE YEAR	**276**	**219**
34. Attributable to minority interest [non–controlling interests]	–	–
35. Attributable to owners of the parent	**276**	**219**

Appendix I

Supplementary schedules for the Croatian National Bank (continued)

Statement of comprehensive income

HRK millions	2018	2018
1. PROFIT OR (–) LOSS FOR THE YEAR	**276**	**219**
2. Other comprehensive income	(13)	(13)
3. Items that will not be reclassified to profit or loss	2	**2**
15. Items that are or may be reclassified to profit or loss	(15)	(15)
24. Total comprehensive income for the year	**263**	**206**
25. Attributable to minority interest [non–controlling interests]	–	–
26. Attributable to owners of the parent	263	206

Appendix I

Supplementary schedules for the Croatian National Bank (continued)

Statement of cash flows - indirect method

HRK millions	Group 2018	Bank 2018
Operating activities under indirect method		
9. Profit/(loss) before tax	**302**	**239**
Adjustments:		
10. Impairment losses	419	444
11. Depreciation and amortization	137	81
12. Unrealised (gains)/losses on securities at fair value through profit or loss	(146)	(154)
13. (Gains)/losses from sale of tangible assets	(13)	–
14. Other non cash items	(11)	(396)
Changes in assets and liabilities due to operating activities	**688**	**214**
16. Deposits with banking institutions and loans to financial institutions	66	44
17. Loans to other clients	(451)	(123)
19. Securities and other financial instruments held for trading	(170)	(150)
20. Securities and other financial instruments at fair value through profit or loss which are not actively traded	(150)	(188)
21. Securities and other financial instruments mandatorily at FVTPL	–	5
23. Other operating assets	(45)	35
24. Financial institutions deposits	(467)	(420)
25. Other clients demand deposits	3,777	3,732
27. Other clients term deposits	(2,411)	(1,994)
29. Other liabilities	(130)	(126)
30. Interest received	1,065	952
32. Interest paid	(183)	(141)
33. (Income tax paid)	(131)	(135)
34. Net inflow/(outflow) of cash from operating activities (from 1. to 33.)	**1,458**	**1,705**
Investing activities		
35. Cash receipts from/(payments to acquire) tangible and intangible assets	293	(113)
36. Cash receipts from the disposal of/(payments for the investment in) subsidiaries, associates and joint ventures	–	(67)
37. Cash receipts from sales of/(cash payments to acquire) securities and other investment securities	487	265
38. Dividends received	79	79
40. Net cash flow from investing activities (from 35. to 39.)	**859**	**164**
Financing activities		
41. Net increase/(decrease) in received loans	(624)	(199)
45. (Dividends paid)	(396)	(396)
47. Net cash flow from financing activities (from 41. to 46.)	**(1,020)**	**(595)**
48. Net increase/(decrease) in cash and cash equivalents (34. + 40. + 47.)	**1,297**	**1,274**
49. Cash and cash equivalents at the beginning of the year	**5,529**	**5,528**
50. Effect of foreign exchange differences on cash and cash equivalents	3	3
51. Cash and cash equivalents at the end of the year (48. + 49. + 50.)	**6,829**	**6,805**

Appendix I

Supplementary schedules for the Croatian National Bank (continued)

Statement of changes in equity

Group (All amounts in HRK million)	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	Other provisions	Profit or (-) loss attributable to owners of the parent	Non-controlling interest	Total
1. Opening balance [before restatement]	**3,621**	**12**	**35**	**558**	**180**	**175**	**–**	**4,582**
3. Changes of accounting policies	–	–	46	(97)	–	–	–	(51)
4. Opening balance [current period]	**3,621**	**12**	**81**	**461**	**180**	**175**	**–**	**4,531**
11. Dividends	–	–	–	(396)	–	–	–	(396)
16. Transfer between components of owner's instruments	–	–	–	175	–	(175)	–	–
19. Other increase or (–) decrease of owner's instruments	–	–	–	–	2	–	–	2
20. Total comprehensive income for the year	–	–	(13)	–	–	276	–	263
21. Closing balance [current period]	**3,621**	**12**	**68**	**241**	**182**	**276**	**–**	**4,400**

Bank (All amounts in HRK million)	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	Other provisions	Profit or (–) loss attributable to owners of the parent	Non–controlling interest	Total
1. Opening balance [before restatement]	**3,621**	**12**	**34**	**222**	**180**	**396**	**–**	**4,465**
3. Changes of accounting policies	–	–	44	(86)	–	–	–	(42)
4. Opening balance [current period]	**3,621**	**12**	**79**	**136**	**180**	**396**	**–**	**4,423**
11. Dividends	–	–	–	(396)	–	–	–	(396)
16. Transfer between components of owner's instruments	–	–	–	396	–	(396)	–	–
19. Other increase or (–) decrease of owner's instruments	–	–	–	–	2	–	–	2
20. Total comprehensive income for the year	–	–	(13)	–	–	219	–	205
21. Closing balance [current period]	**3,621**	**12**	**65**	**136**	**182**	**219**	**–**	**4,235**

Appendix II

Reconciliation of the statutory financial statements with the supplementary schedules for the Croatian National Bank

The following reconciliation tables are prepared in light of different classifications of line items in the statutory financial statements and the CNB Schedules.

Group 2018 Millions HRK	Per Decision of the CNB	Per statutory requirements for accounting for banks in Croatia	Difference
Assets			
1. Cash and cash equivalents, central bank receivables and other demand deposits (from 2 to 4)	6,851	7,215	(364)
2. Cash in hand	1,049	1,049	–
3. Cash receivables from central banks	4,160	6,068	(1,908)
4. Other demand deposits	1,642	98	1,544
6. Financial assets for trading	828	829	(1)
14. Financial assets at fair value through profit or loss	188	704	(516)
17. Financial assets at fair value through other comprehensive income	5,264	5,295	(31)
21. Financial assets at amortised cost	19,811	19,530	281
25. Fair value changes of the hedged items in portfolio hedge of interest rate risk	5	–	5
26. Investments in subsidiaries, joint ventures and associates	175	–	175
27. Tangible assets	991	987	4
28. Intangible assets	258	256	2
29. Tax assets	127	99	28
30. Other assets	153	250	(97)
32. TOTAL ASSETS (1. + 5. + 10. + 14. + 17. + 21. + from 24. to 31.)	**34,651**	**35,165**	**(514)**
Liabilities			
33. Financial liabilities for trading	30	40	(10)
43. Financial liabilities at amortised cost	29,666	29,558	108
44. Deposits	29,628	29,558	70
46. Other financial liabilities	38	–	38
47. Derivatives – Hedge accounting	10	–	10
49. Provisions	206	185	21
50. Tax liabilities	13	–	13
52. Other liabilities	326	876	(550)
54. TOTAL LIABILITIES (33. + 39. + 43. + from 47. to 53.)	**30,251**	**30,659**	**(408)**
Equity			
55. Share capital	3,621	3,621	–
56. Share premium	12	12	–
59. Accumulated other comprehensive income	68	72	(4)
60. Retained earnings	241	337	(96)
62. Other reserves	182	181	1
64. Profit or loss attributable to owners of the parent	276	283	(7)
67. TOTAL EQUITY (from 55. to 66.)	**4,400**	**4,506**	**(106)**
68. TOTAL LIABILITIES AND EQUITY (54. + 67.)	**34,651**	**35,165**	**(514)**

Appendix II

Reconciliation of the statutory financial statements with the supplementary schedules for the Croatian National Bank (continued)

Bank 2018 Millions HRK	Per Decision of the CNB	Per statutory requirements for accounting for banks in Croatia	Difference
Assets			
1. Cash and cash equivalents, central bank receivables and other demand deposits (from 2 to 4)	5,322	7,207	(1,885)
2. Cash in hand	1,049	1,049	–
3. Cash receivables from central banks	4,160	6,069	(1,909)
4. Other demand deposits	113	89	24
6. Financial assets for trading	831	831	–
10. Non–trading financial assets mandatorily at fair value through profit or loss	36	–	36
14. Financial assets at fair value through profit or loss	188	188	–
17. Financial assets at fair value through other comprehensive income	5,057	5,057	–
21. Financial assets at amortised cost	19,783	17,894	1,889
25. Fair value changes of the hedged items in portfolio hedge of interest rate risk	5	–	5
26. Investments in subsidiaries, joint ventures and associates	423	423	–
27. Tangible assets	507	507	–
28. Intangible assets	224	221	3
29. Tax assets	120	95	25
30. Other assets	129	206	(77)
32. TOTAL ASSETS (1. + 5. + 10. + 14. + 17. + 21. + from 24. to 31.)	**32,625**	**32,629**	**(4)**
Liabilities			
33. Financial liabilities for trading	30	40	(10)
43. Financial liabilities at amortised cost	27,869	27,879	(10)
44. Deposits	27,866	27,879	(13)
46. Other financial liabilities	3	–	3
47. Derivatives – Hedge accounting	10	–	10
49. Provisions	189	169	20
52. Other liabilities	292	315	(23)
54. TOTAL LIABILITIES (33. + 39. + 43. + from 47. to 53.)	**28,390**	**28,403**	**(13)**
Equity			
55. Share capital	3,621	3,621	–
56. Share premium	12	12	–
59. Accumulated other comprehensive income	65	65	–
60. Retained earnings	136	136	–
62. Other reserves	182	173	9
64. Profit or loss attributable to owners of the parent	219	219	–
67. TOTAL EQUITY (from 55. to 66.)	**4,235**	**4,226**	**9**
68. TOTAL LIABILITIES AND EQUITY (54. + 67.)	**32,625**	**32,629**	**(4)**

Appendix II

Reconciliation of the statutory financial statements with the supplementary schedules for the Croatian National Bank (continued)

- The difference in total assets and total liabilities at 31 December 2018 in the amount of HRK 514 million belongs to other consolidating companies which are not consolidated under the CNB Decision.
- Obligatory reserve is included under the Financial assets at amortized cost - Loans and advances and is not included in Cash receivables and liabilities from the central bank under the CNB Decision.
- Part of the Bank's placement is also reported under the position of Financial assets at amortized cost - Loans and advances under the CNB Decision.
- Prepaid leases and assets designated for sale are included under the CNB Decision within Tangible assets, while under the statutory requirements are reported within the Other assets.
- Under the statutory requirements client funds from closure of inactive deposit accounts are presented in Other liabiliti es, whereas they are presented in the Statutory and other capital reserves under the CNB Decision

Appendix II

Reconciliation of the statutory financial statements with the supplementary schedules for the Croatian National Bank (continued)

Reconciliation for the income statement for years ended 31 December 2018:

Group 2018 Millions HRK	Per Decision of the CNB	Per statutory requirements for accounting for banks in Croatia	Difference
1. Interest income	1,031	1,038	(7)
2. (Interest expense)	(165)	(165)	–
4. Dividend income	79	–	79
5. Fee and commission income	689	853	(164)
6. (Fee and commission expense)	(390)	(390)	–
7. Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	184	7	177
8. Gains or (-) losses on financial assets and liabilities held for trading, net	149	149	–
10. Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(3)	(3)	–
12. Exchange differences [gain or (-) loss], net	(1)	(6)	5
13. Gains or (-) losses on derecognition of non-financial assets, net	14	–	14
14. Other operating income	103	321	(218)
15. (Other operating expense)	(84)	–	(84)
16. TOTAL OPERATING INCOME, NET (1. – 2. – 3. + 4. + 5. – 6. + from 7. to 14. – 15.)	**1,606**	**1,804**	**(198)**
17. (Administrative expense)	(733)	(1,099)	366
18. (Depreciation)	(137)	(134)	(3)
19. Modification gains or (-) losses, net	(15)	–	(15)
20. (Provisions or (-) reversal of provisions)	(19)	(22)	3
21. (Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	(400)	(221)	(179)
22. PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS (16. – 17. – 18. + 19. – from 20. to 23. + from 24. to 26.)	**302**	**328**	**(26)**
27. (Tax expense or (-) income related to profit or loss from continuing operations)	(26)	(45)	19
28. PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS (27. – 28.)	**276**	**283**	**(7)**
28. PROFIT OR (-) LOSS FOR THE YEAR	**276**	**283**	**(7)**
33. Attributable to minority interest [non-controlling interests]	–	–	–
34. Attributable to owners of the parent	276	283	(7)

Appendix II

Reconciliation of the statutory financial statements with the supplementary schedules for the Croatian National Bank (continued)

Bank 2018 Millions HRK	Per Decision of the CNB	Per statutory requirements for accounting for banks in Croatia	Difference
1. Interest income	952	934	18
2. (Interest expense)	(125)	(124)	(1)
4. Dividend income	79	79	–
5. Fee and commission income	685	685	–
6. (Fee and commission expense)	(386)	(386)	–
7. Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	184	7	177
8. Gains or (-) losses on financial assets and liabilities held for trading, net	156	156	–
10. Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(2)	(2)	–
12. Exchange differences [gain or (-) loss], net	(14)	(14)	–
13. Other operating income	18	18	–
14. (Other operating expense)	(79)	(80)	1
15. TOTAL OPERATING INCOME, NET (1. – 2. – 3. + 4. + 5. – 6. + from 7. to 14. – 15.)	**1,468**	**1,273**	**195**
16. (Administrative expense)	(688)	(685)	(3)
17. (Depreciation)	(81)	(81)	–
18. Modification gains or (-) losses, net	(15)	–	(15)
19. (Provisions or (-) reversal of provisions)	(13)	(17)	4
20. (Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	(393)	(213)	(180)
21. ((Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates))	(39)	(39)	–
22. PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS (16. – 17. – 18. + 19. – from 20. to 23. + from 24. to 26.)	**239**	**239**	–
27. (Tax expense or (-) income related to profit or loss from continuing operations)	(20)	(20)	–
28. PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS (27. – 28.)	**219**	**219**	–
29. PROFIT OR (-) LOSS FOR THE YEAR	**219**	**219**	–
33. Attributable to minority interest [non-controlling interests]	–	–	–
34. Attributable to owners of the parent	219	219	–

Appendix II

Reconciliation of the statutory financial statements with the supplementary schedules for the Croatian National Bank (continued)

- The total profit after taxation for the year under the CNB Decision is lower by HRK 7 million from profit after taxation in accordance with statutory requirements due to the profit of other consolidating companies, which are not consolidated according to the CNB Decision.

- Dividend income stated under the CNB Decision was paid by companies that are not consolidated under the CNB Decision, while these were consolidated under the statutory requirements, and consequently eliminated.

- According to the CNB Decision, the cost of deposit insurance and resolution fund costs are shown as interest expenses, while under the statutory requirements, these were classified as administrative costs. Negative interest on deposits with banks and factoring fees are stated in the General Administrative Expenses and Depreciation as per the CNB decision, whereas under the statutory requirements are shown under Interest expenses.

- According to the CNB Decision, the net exchange rate differences are classified under Profit / (loss) from the Exchange rate differences, Net interest income, Net fee and commission income and Impairment expenses and provisions. Under the statutory requirements, all exchange differences are stated at the net trading profit, available for-sale financial assets and foreign exchange differences on the translation of monetary assets and liabilities. At the same time, the remaining items of total other revenues under the CNB Decision are reported under the statutory accounting requirements at the net trading profit, available-for-sale financial assets and foreign exchange differences on the translation of monetary assets and liabilities.

- Revenues from the sale of placements under the CNB Decision are presented in the Other income, while under the statutory requirements are shown in the Impairment losses. In addition, Other income under the CNB Decision includes revenues from changes in technical reserves that are under statutory requirements included within the General Administrative Expenses and Depreciation.

- Other expenditures, costs, donations, advertising, advertising and representation according to the CNB Decision are presented within Other costs, while under the statutory requirements are shown within the General Administrative Expenses and Depreciation.

Supplementary financial statements expressed in EUR and USD

Supplementary financial statements of the Group and Bank are given only for illustration and not represent part of the audited financial statements.

Statement of financial position and statement of comprehensive income reported in the audited financial statements, are translated into EUR and USD usig the following exchange rates at each year end:

31 December 2018
1 EUR = HRK 7,513648
1 USD = HRK 6,269733

31 December 2017
1 EUR = HRK 7,557787
1 USD = HRK 7,168536

Consolidated statement of financial position
As at 31 December

Group Assets	2018 EUR millions	2018 USD millions	2017 EUR millions	2017 USD millions
Cash and current account with banks	715	820	627	751
Obligatory reserve with the Croatian National Bank	257	295	231	277
Financial assets at fair value through profit or loss	207	237	127	152
Placements with and loans to other banks	206	237	119	143
Loans from and advances to customers	2,354	2,700	2,362	2,830
Investment securities	786	901	827	991
Property, plant, equipment and property investments	133	153	174	209
Intangible assets	35	40	32	38
Intangible assets	13	15	11	14
Current tax asset	3	3	–	–
Other assets	31	35	39	47
Total assets	**4,740**	**5,436**	**4,549**	**5,452**

Consolidated statement of financial position (continued)
As at 31 December

Group Liabilities	2018 EUR millions	2018 USD millions	2017 EUR millions	2017 USD millions
Financial liabilities at fair value through profit or loss	5	6	8	9
Deposits from banks	79	91	141	168
Deposits from companies and other similar entities	1,535	1,760	1,271	1,523
Deposits from individuals	2,002	2,295	1,894	2,270
Borrowings	258	296	342	410
Provisions for liabilities and charges	25	29	23	28
Current tax liability	–	–	9	11
Other liabilities	118	135	127	152
Subordinated liabilities	111	127	111	133
Total liabilities	**4,133**	**4,739**	**3,926**	**4,704**
Equity				
Share capital	488	560	482	578
Share premium	2	2	2	2
Capital reserve	–	–	–	–
Legal reserve	24	28	24	29
Fair value reserve	10	11	6	8
Retained earnings	83	96	109	131
Total equity attributable to owners of the parent	**607**	**697**	**623**	**748**
Total liabilities and equity	**4,740**	**5,436**	**4,549**	**5,452**

Consolidated statement of comprehensive income
For the year ended 31 December

Group	2018 EUR millions	2018 USD millions	2017 EUR millions	2017 USD millions
Interest income calculated using the effective interest method	129	148	141	169
Other interest income	11	13	11	13
Interest expense	(22)	(25)	(30)	(36)
Net interest income	**118**	**136**	**122**	**146**
Fee and commission income	115	132	106	127
Fee and commission expense	(53)	(60)	(43)	(52)
Net fee and commission income	**62**	**72**	**63**	**75**
Net trading gains and gains from financial instruments at fair value	4	4	(7)	(8)
Net gain on trading and foreign exchange differences from translation of monetary assets and liabilities	16	18	33	39
Other operating income	43	49	40	48
Trading and other income	**63**	**71**	**66**	**79**
Operating income	**243**	**279**	**251**	**299**
Operating expenses	(166)	(190)	(162)	(194)
Impairment losses	(30)	(34)	(51)	(61)
(Increase)/ release of provisions for liabilities and charges	(3)	(3)	2	2
Profit before tax	**44**	**52**	**40**	**46**
Income tax expense	(6)	(7)	(14)	(16)
Profit for the year	**38**	**45**	**26**	**31**
Items that will not be reclassified to profit or loss				
Change in fair value of equity financial assets at fair value through other comprehensive income, net of tax and realised amounts	–	–	–	–
Items that are or may be reclassified to profit or loss				
Change in fair value of debt financial assets at fair value through other comprehensive income, net of tax and realised amounts	(2)	(3)	–	–
Change in fair value of financial assets available for sale, net of tax and realised amounts			(1)	(2)
Other comprehensive loss for the year, net of tax	**(2)**	**(3)**	**(1)**	**(2)**
Total comprehensive income for the year	**36**	**42**	**25**	**29**
Attributable to:				
Owners of the parent	38	45	26	31
Earnings per share attributable to the equity holders of the parent	**EUR 6**	**USD 7**	**EUR 7**	**USD 8**

Separate statement of financial position
As st 31 December

Bank Assets	2018 EUR millions	2018 USD millions	2017 EUR millions	2017 USD millions
Cash and current accounts with banks	714	819	626	751
Obligatory reserve with the Croatian National Bank	257	295	231	277
Financial assets at fair value through profit or loss	138	158	76	91
Placements with and loans to other banks	208	239	120	144
Loans from and advances to customers	2,170	2,489	2,190	2,624
Investment securities	716	821	748	896
Investments in subsidiaries	57	65	53	63
Property, plant, equipment and property investments	68	78	66	79
Intangible assets	30	35	27	33
Deferred tax asset	13	15	11	14
Current tax asset	4	5	–	–
Other assets	24	27	28	33
Total assets	**4,399**	**5,046**	**4,176**	**5,005**

Separate statement of financial position (continued)
As st 31 December

Bank	2018	2018	2017	2017
Liabilities	**EUR millions**	**USD millions**	**EUR millions**	**USD millions**
Financial liabilities at fair value through profit or loss	5	6	8	10
Deposits from banks	91	104	145	174
Deposits from companies and other similar entities	1,563	1,793	1,306	1,566
Deposits from individuals	1,858	2,131	1,757	2,106
Borrowings	135	155	165	197
Provisions for liabilities and charges	23	26	21	26
Current tax liability	–	–	11	12
Other liabilities	43	49	58	70
Subordinated liabilities	111	127	111	133
Total liabilities	**3,829**	**4,391**	**3,582**	**4,294**
Equity				
Share capital	488	560	482	578
Share premium	2	2	2	2
Capital reserve	–	–	–	–
Legal reserve	23	27	23	27
Fair value reserve	9	10	4	5
Retained earnings	48	56	83	99
Total equity	**570**	**655**	**594**	**711**
Total liabilities and equity	**4,399**	**5,046**	**4,176**	**5,005**

Separate statement of comprehensive income
For the year ended 31 December

Bank	2018 EUR millions	2018 USD millions	2017 EUR millions	2017 USD millions
Interest income calculated using the effective interest method	117	134	128	153
Other interest income	9	10	9	11
Interest expense	(17)	(19)	(23)	(27)
Net interest income	**109**	**125**	**114**	**137**
Fee and commission income	92	106	84	100
Fee and commission expense	(52)	(60)	(43)	(51)
Net fee and commission income	**40**	**46**	**41**	**49**
Net trading gains and gains from financial instruments at fair value	5	6	(10)	(12)
Net gain on trading and foreign exchange differences from translation of monetary assets and liabilities	15	17	33	40
Other operating income	14	15	14	16
Trading and other income	**34**	**38**	**37**	**44**
Operating income	**183**	**209**	**192**	**230**
Operating expenses	(119)	(137)	(147)	(176)
Impairment losses	(29)	(33)	17	20
(Increase)/ release of provisions for liabilities and charges	(2)	(3)	2	2
Profit before tax	**33**	**36**	**64**	**76**
Income tax expense	(3)	(3)	(11)	(13)
Profit for the year	**30**	**33**	**53**	**63**
Items that will not be reclassified to profit or loss				
Change in fair value of equity financial assets at fair value through other comprehensive income, net of tax and realised amounts	–	–	–	–
Items that are or may be reclassified to profit or loss				
Change in fair value of debt financial assets at fair value through other comprehensive income, net of tax and realised amounts	(2)	(2)	–	–
Change in fair value of financial assets available for sale, net of tax and realised amounts	–	–	–	–
Other comprehensive loss for the year, net of tax	**(2)**	**(2)**	**–**	**–**
Total comprehensive income for the year	**28**	**31**	**53**	**63**
Earnings per share attributable to the equity holders of the parent	**EUR 8**	**USD 9**	**EUR 15**	**USD 17**

Contacts

Branch network in Croatia

Raiffeisenbank Austria Plc.

Head office
Magazinska cesta 69
HR/10000 Zagreb
Phone: +385-1-4566 466
Fax: 01/4811 624
INFO phone: 072 62 62 62
S.W.I.F.T.: RZBH HR2X
info@rba.hr
http://www.rba.hr
Contact:Iva Bakija,
Director of Executive and
Participation Management

Branch network
Zagreb
Dankovečka 1
Phone: 072 62 62 62
Fax: +385-1-4604 935

Froudeova 11, Siget
Phone: 072 62 62 62
Fax: +385-1-4604 856

Garićgradska 13-15
Phone: 072 62 62 62
Fax: +385-1-4604 840

Gundulićeva 7
Phone: 072 62 62 62
Fax: +385-1-4604 850

Ilica 216
Phone: 072 62 62 62
Fax: +385-1-4604 867

Ilica 253
Phone: 072 62 62 62
Fax: +385-1-4604 993

Jurišićeva 9
Phone: 072 62 62 62
Fax: +385-1-4604 960

Lanište 26
Phone: 072 62 62 62
Fax: +385-1-4604 833

Magazinska cesta 69
Phone: 072 62 62 62
Fax: +385-1-4604 838

Pakoštanska 3a
Phone: 072 62 62 62
Fax: +385-1-4604 980

Petrinjska 59
Phone: 072 62 62 62
Fax: +385-1-4566 481

Radnička cesta 43
Phone: 072 62 62 62
Fax: +385-1-4604 981

Samoborska 258
Phone: 072 62 62 62
Fax: +385-1-4604 828

Ulica SR Njemačke 8
Phone: 072 62 62 62
Fax: +385-1-4604 937

Trg Ivana Kukuljevića 9
Phone: 072 62 62 62
Fax: +385-1-4604 886

Ulica grada Vukovara 37b
Phone: 072 62 62 62
Fax: +385-1-6324 051

Ulica grada Vukovara 37b
RBA Stambeni centar
Phone: 01/6324 090
Fax: +385-1-6324 054

Vlaška 122
Phone: 072 62 62 62
Fax: +385-1-4604 931

Slavonska avenija 11d
City Center one East
Phone: 072 62 62 62

Bjelovar
Trg Eugena Kvaternika 9
43000 Bjelovar
Phone: +385-43-343 500
Fax: +385-43-343 535

Čakovec
Trg Eugena Kvaternika 1
40000 Čakovec
Phone: +385-40-640 600
Fax: +385-40-640 644

Dubrovnik
Vukovarska 17
20000 Dubrovnik
Phone: +385-20-320 500
Fax: +358-20-320 546

Ivanićgrad
Savska 39
10310 Ivanić Grad
Phone: +385-1-6174 925
Fax: +385-1-4604 879

Jastrebarsko
Ulica Franje Tuđmana 43
10450 Jastrebarsko
Phone: +385-1-6174 780
Fax: +385-1-4604 855

Karlovac
Trg Milana Sufflaya 1
47000 Karlovac
Phone: +385-47-547 500
Fax: +385-47-547 540

Koprivnica
Trg mladosti 16a
48000 Koprivnica
Phone: +385-48-248 500
Fax: +385-48-248 530

Kutina
Kralja Petra Krešimira IV br. 6
44320 Kutina
Phone: +385-44-844 500
Fax: +385-44-844 527

Ludbreg
Ulica kardinala Franje Kuharića 14
42230 Ludbreg
Phone: +385-42-242 700
Fax: +385-42-242 710

Makarska
Trg Hrpina 5
21300 Makarska
Phone: +385-21-521 200
Fax: +385-21-521 220

Metković
Splitska 2
20350 Metković
Phone: +385-20-320 600
Fax: +385-20-320 615

Osijek
Kapucinska 34
31000 Osijek
Phone: +385-31-531 550
Fax: +385-31-531 570

Ulica hrvatske republike 14
31000 Osijek
Phone: +385-31-531 500
Fax: +385-31-531 535

Poreč
Karla Huguesa 4
52440 Poreč
Phone: +385-52-652 740
Fax: +385-52-652 755

Požega
Vukovarska 14
34000 Požega
Phone: +385-34-434 500
Fax: +385-34-434 520

Prelog
Glavna ulica 26
40323 Prelog
Phone: +385-40-640 500
Fax: +385-40-640 525

Pula
Ciscuttieva 1
52100 Pula
Phone: +385-52-652 660
Fax: +385-52-652 690

43. istarske divizije 2
52100 Pula
Phone: +385-5-/652 600
Fax: +385-52-652 651

Rijeka
Đure Šporera 2
51000 Rijeka
Phone: +385-51-851 502
Fax: +385-51-851 540

Eugena Kvaternika 30
51000 Rijeka
Phone: +385-51-851 450
Fax: +385-51-851 465

Žabica 7
51000 Rijeka
Phone: +385-51-851 600
Fax: +385-51-851 635

Rovinj
Trg brodogradilišta 1
52210 Rovinj
Phone: +385-52-652 700
Fax: +385-52-652 715

Samobor
Perkovčeva 36
10430 Samobor
Phone: +385-1-5575 550
Fax: +385-1-4604 972

Sesvete
Zagrebačka cesta 6
10360 Sesvete
Phone: +385-1-5575 500
Fax: +385-1-4604 939

Sisak
Trg bana Josipa Jelačića 6
44000 Sisak
Phone: +385-44-844 550
Fax: +385-44-844 587

Slavonski brod
Andrije Štampara 29
35000 Slavonski Brod
Phone: +385-35-235 100
Fax: +385-35-235 120

Trg pobjede 7
35000 Slavonski Brod
Phone: +385-35-235 050
Fax: +385-35-235 080

Split
Kvaternikova 32
21000 Split
Phone: +385-21-521 000
Fax: +385-21-521 030

Svačićeva 10
21000 Split
Phone: +385-21-521 040
Fax: +385-21-521 055

Ul. Domovinskog rata 29b
21000 Split
Phone: +385-21-521 100
Fax: +385-21-521 163

Ulica Ruđera Boškovića 13
21000 Split
Phone: +385-21-521 060
Fax: +385-21-521 090

Sveta Nedelja
Dr. Franje Tuđmana 6
10431 Sveta Nedelja
Phone: +385-1-6174 620
Fax: +385-1-4604 829

Sveti ivan zelina
Bacakova 2D
10380 Sveti Ivan Zelina
Phone: +385-1-5575 033
Fax: +385-1-5575 030

Šibenik
ŠIBENIK
Trg Dražena Petrovića 9
22000 Šibenik
Phone: +385-22-222 000
Fax: +385-22-222 025

Trogir
Ulica kneza Trpimira 9
21220 Trogir
Phone: +385-21-521 170
Fax: +385-21-521 180

Umag
Obala Josipa Broza Tita 4
52470 Umag
Phone: +385-52-652 720
Fax: +385-52-652 735

Varaždin
Franjevački trg 5
42000 Varaždin
Phone: +385-42-242 600
Fax: +385-42-242 650

Zagrebačka 13
42000 Varaždin
Phone: +385-42-242 520
Fax: +385-42-242 545

Velika gorica
Zagrebačka 44
10410 Velika Gorica
Phone: 072 62 62 62
Fax: +385-1-4604 953

Vinkovci
Trg dr. Franje Tuđmana 2
32100 Vinkovci
Phone: +385-32-432 500
Fax: +385-32-432 535

Virovitica
Ljudevita Gaja 2
33000 Virovitica
Phone: +385-33-833 500
Fax: +385-33-833 530

Vrbovec
Trg Petra Zrinskog 5a
10340 Vrbovec
Phone: +385-1-6174 411
Fax: +385-1-4604 933

Vukovar
Ulica dr. Franje Tuđmana 12
32000 Vukovar
Phone: +385-32-432 400
Fax: +385-32-432 425

Zabok
Matije Gupca 90
49210 Zabok
Phone: +385-49-449 500
Fax: +385-49-449 520

Zadar
Ante Starčevića 5a
23000 Zadar
Phone: +385-23-723 000
Fax: +385-23-723 030

Ulica bana Josipa Jelačića 1
23000 Zadar
Phone: +385-23-723 100
Fax: +385-23-723 155

Zaprešić
Ante Starčevića 11a
10290 Zaprešić
Phone: +385-1-5575 450
Fax: +385-1-4604 930

Raiffeisen Group in Croatia

Raiffeisen Building Society Plc.
Ulica grada Vukovara 37b
HR/10000 Zagreb
Phone: +385-1-6006 100
Fax: +385-1-6006 199
www.raiffeisenstambena.hr
stambena.stednja@
raiffeisenstambena.hr

Raiffeisen Leasing d.o.o.
Radnička cesta 43
HR/10000 Zagreb
Phone: +385-1-6595 000
Fax: +385-1-6595 050
www.rl-hr.hr
leasing@rl-hr.hr

Raiffeisen Pension Funds Management Company Plc.
Petrinjska 59
HR/10000 Zagreb
Phone: 0800 0900
Fax: +385-1-6003 927
www.rmf.hr
mojamirovina@rmf.hr

Raiffeisen Pension Insurance Company Ltd.
Heinzelova 44
HR/10000 Zagreb
Phone: +385-1-5581 720
Fax: +385-1-3091 127
www.rmod.hr
mirovina@rmf.hr

Raiffeisen Invest Ltd.
Petrinjska 59
HR/10000 Zagreb
Department of general affairs:
Phone: +385-1-6003 700
Sales:
Phone: +385-1-6003 777
Fax: +385-1-6112 767
www.rbainvest.hr
rbainvest@rbainvest.hr

Raiffeisen Consulting Ltd.
Magazinska cesta 69
HR/10000 Zagreb
Phone: +385-1-6174 357
+385-1-6174 356, 358
Fax: +385-1-4604 895
izlog.limun.hr
rc@rba.hr

Raiffeisen Factoring Ltd.
Petrinjska 59
Petrinjska 59
HR/10000 Zagreb
Phone: +385-1-6174 900
Fax: +385-1-4604 877
www.raiffeisen-factoring.hr
factoring@rba.hr

Associated members of Raiffeisen Group in Croatia

UNIQA Insurance Plc.
Planinska 13a
HR/10000 Zagreb
Phone: +385-1-6324 200
Faks: +385-1-6324 250
www.uniqa.hr
info@uniqa.hr

Addresses and contacts for Raiffeisen Bank International Group members

Raiffeisen Bank International AG

Austria
Am Stadtpark 9
1030 Vienna
Phone: +43-1-71 707-0
Fax: +43-1-71 707-1715
SWIFT/ BIC: RZBATWW
www.rbinternational.com
ir@rbinternational.com
communications@rbinternational.com

Banking network

Albania
Raiffeisen Bank Sh.A.
"European Trade Center"
Bulevardi "Bajram Curri"
Tirana
Phone: +355-4-23 8 100
Fax: +355-4-22 755 99
SWIFT/BIC: SGSBALTX
www.raiffeisen.al

Belarus
Priorbank JSC
V. Khoruzhey str. 31-A
220002 Minsk
Phone: +375-17-28 9-9090
Fax: +375-17-28 9-9191
SWIFT/BIC: PJCBBY2X
www.priorbank.by

Bosnia and Herzegovina
Raiffeisen Bank d.d.
Bosna i Hercegovina
Zmaja od Bosne bb
71000 Sarajevo
Phone: +387-33-287 100
Fax: +387-33-21 385 1
SWIFT/BIC: RZBABA2S
www.raiffeisenbank.ba

Bulgaria
Raiffeisenbank (Bulgaria) EAD
Nikola I. Vaptzarov Blvd.
Business Center EXPO 200 PHAZE III, floor 5
1407 Sofia
Phone: +359-2-91 985 101
Fax: +359-2-94 345 28
SWIFT/BIC: RZBBBGSF
www.rbb.bg

Croatia
Raiffeisenbank Austria d.d.
Magazinska cesta 69
10000 Zagreb
Phone: +385-1-45 664 66
Fax: +385-1-48 116 24
SWIFT/BIC: RZBHHR2X
www.rba.hr

Czech Republic
Raiffeisenbank a.s.
Hvězdova 1716/2b
14078 Prague 4
Phone: + 420-412 446 400
Fax: +420-234-402-111
SWIFT/BIC: RZBCCZPP
www.rb.cz

Hungary
Raiffeisen Bank Zrt.
Akad.mia utca 6
1054 Budapest
Phone: +36-1-48 444-00
Fax: +36-1-48 444-44
SWIFT/BIC: UBRTHUHB
www.raiffeisen.hu

Kosovo
Raiffeisen Bank Kosovo J.S.C.
Rruga U.K, No. 191
10000 Pristina
Phone: +381-38-22 222 2
Fax: +381-38-20 301 130
SWIFT/BIC: RBKOXKPR
www.raiffeisen-kosovo.com

Poland
Raiffeisen Bank Polska S.A.
Ul. Grzybowska 78
00-844 Warsaw
Phone: +48-22-347 7000
Fax: +48-22-347 7001
SWIFT/BIC: RCBWPLPW
www.raiffeisen.pl

Romania
Raiffeisen Bank S.A.
Calea Floreasca 246C
014476 Bucharest
Phone: +40-21-30 610 00
Fax: +40-21-23 007 00
SWIFT/BIC: RZBRROBU
www.raiffeisen.ro

Russia
AO Raiffeisenbank
17/1 St. Troitskaya
129090 Moscow
Phone: +7-495-72 1-9900
Fax: +7-495-72 1-9901
SWIFT/BIC: RZBMRUMM
www.raiffeisen.ru

Serbia
Raiffeisen banka a.d.
Djordja Stanojevica 16
11070 Novi Beograd
Phone: +381-11-32 021 00
Fax: +381-11-22 070 80
SWIFT/BIC: RZBSRSBG
www.raiffeisenbank.rs

Slovakia
Tatra banka, a.s.
Hodžovo n.mestie 3
81106 Bratislava 1
Phone: +421-2-59 19-1000
SWIFT/BIC: TATRSKBX
www.tatrabanka.sk

Ukraine
Raiffeisen Bank Aval JSC
9, vul Leskova
01011 Kiev
Phone: +38-044-49 088 88
Fax: +38-044-285-32 31
SWIFT/BIC: AVALUAUK
www.aval.ua

Leasing companies

Austria
Raiffeisen-Leasing
International GmbH
Am Stadtpark 3
1030 Vienna
Phone: +43-1-71 707-2071
Fax: +43-1-71 707-76 2966
www.rli.co.at

Albania
Raiffeisen Leasing Sh.a.
"European Trade Center"
Bulevardi "Bajram Curri"
Tirana
Phone: +355-4-22 749 20
Fax: +355-4-22 325 24
www.raiffeisen-leasing.al

Belarus
"Raiffeisen-Leasing" JLLC
V. Khoruzhey 31-A
220002 Minsk
Phone: +375-17-28 9-9394
Fax: +375-17-28 9-9974
www.rl.by

Bosnia and Herzegovina
Raiffeisen Leasing d.o.o. Sarajevo
Zmaja od Bosne bb.
71000 Sarajevo
Phone: +387-33-254 354
Fax: +387-33-212 273
www.rlbh.ba

Bulgaria
Raiffeisen Leasing Bulgaria OOD
32A Cherni Vrah Blvd. Fl.6
1407 Sofia
Phone: +359-2-49 191 91
Fax: +359-2-97 420 57
www.rlbg.bg

Croatia
Raiffeisen Leasing d.o.o.
Radnicka cesta 43
10000 Zagreb
Phone: +385-1-65 9-5000
Fax: +385-1-65 9-5050
www.rl-hr.hr

Czech Republic
Raiffeisen-Leasing s.r.o.
Hvězdova 1716/2b
14078 Prague 4
Phone: +420-2-215 116 11
Fax: +420-2-215 116 66
www.rl.cz

Hungary
Raiffeisen Corporate L.zing Zrt.
Akad.mia utca 6
Phone: +36-1-477 8709
Fax: +36-1-477 8702
www.raiffeisenlizing.hu

Kazakhstan
Raiffeisen Leasing Kazakhstan LLP
Shevchenko Str. 146, flat 1
050008 Almaty
Phone: +7-727-378 54 30
Fax: +7-727-378 54 31
www.rlkz.at

Kosovo
Raiffeisen Leasing Kosovo LLC
Rr. UCK p.n.
10000 Pristina
Phone: +38-1-222 222 340
www.raiffeisenleasing-kosovo.com

Moldova
I.C.S. Raiffeisen Leasing S.R.L.
Alexandru cel Bun 51
2012 Chişinău
Phone: +373-22-27 931 3
Fax: +373-22-22 838 1
www.raiffeisen-leasing.md

Romania
Raiffeisen Leasing IFN S.A.
Calea Floreasca 246 D
014476 Bucharest
Phone: +40-21-36 532 96
Fax: +40-37-28 799 88
www.raiffeisen-leasing.ro

Russia
OOO Raiffeisen-Leasing
Smolenskaya-Sennaya 28
119121 Moscow
Phone: +7-495-72 1-9980
Fax: +7-495-72 1-9901
www.raiffeisen-leasing.ru

Serbia
Raiffeisen Leasing d.o.o.
Djordja Stanojevica 16
11070 Novi Beograd
Phone: +381-11-220 7400
Fax: +381-11-228 9007
www.raiffeisen-leasing.rs

Slovakia
Tatra-Leasing s.r.o.
Černyševsk.ho 50
85101 Bratislava
Phone: +421-2-59 19-3053
www.tatraleasing.sk

Slovenia
Raiffeisen Leasing d.o.o.
Letališka cesta 29a
1000 Ljubljana
Phone: +386-1-241-6250
Fax: +386-1-241-6268
www.rl-sl.si

Ukraine
LLC Raiffeisen Leasing Aval
9, Stepan Bandera av.
Build. 6 Office 6-201
04073 Kiev
Phone: +380-44-590 24 90
Fax: +380-44-200 04 08
www.rla.com.ua

Branches and representative offices - Europe

France
RBI Representative Office Paris
9-11 Avenue Franklin D. Roosevelt
75008 Paris
Phone: +33-1-45 612 700
Fax: +33-1-45 611 606

Germany
RBI Frankfurt Branch
Wiesenhüttenplatz 26
60 329 Frankfurt
Phone: +49-69-29 921 924
Fax: +49-69-29 921 9-22

Sweden
RBI Representative Office
Nordic Countries
Drottninggatan 89, 14th floor
11360 Stockholm
Phone: +46-8-440 5086

UK
RBI London Branch
Tower 42, Leaf C, 9th Floor
25 Old Broad Street
London EC2N 1HQ
Phone: +44-20-79 33-8000
Fax: +44-20-79 33-8009

Branches and representative offices - Asia and America

China
RBI Beijing Branch
Beijing International Club Suite 200
2nd floor
Jianguomenwai Dajie 21
100020 Beijing
Phone: +86-10-65 32-3388
Fax: +86-10-65 32-5926

RBI Representative Office Zhuhai
Room 2404, Yue Cai Building
No. 188, Jingshan Road, Jida,
Zhuhai, Guangdong Province
519015, P.R. China
Phone: +86-756-32 3-3500
Fax: +86-756-32 3-3321

India
RBI Representative Office Mumbai
501, Kamla Hub, Gulmohar Road,
Juhu
Mumbai – 400049
Phone: +91-22-26 230 657
Fax: +91-22-26 244 529

Korea
RBI Representative Office Korea
#1809 Le Meilleur Jongno Town
24 Jongno 1ga
Seoul 110-888
Republic of Korea
Phone: +82-2-72 5-7951
Fax: +82-2-72 5-7988

Singapore
RBI Singapore Branch
50 Raffles Place
#31-03 Singapore Land Tower
Singapore 048623
Phone: +65-63 05-6000
Fax: +65-63 05-6001

USA
RB International Finance (USA) LLC
1177 Avenue of the Americas,
5th Floor
10036 New York
Phone: +1-929-432-1846

Vietnam
RBI Representative Office
Ho-Chi-Minh-City
35 Nguyen Hue Str.,
Harbour View Tower
Room 601A, 6th Floor, Dist 1
Ho-Chi-Minh-City
Phone: +84-8-38 214 718,
+84-8-38 214 719
Fax: +84-8-38 215 256

Notes

ISSN: 1332-3016
Publisher: Raiffeisenbank Austria d.d. Zagreb