Raiffeisenbank Austria d.d.

Annual report
for the year ended 31 December 2019
together with Independent Auditors` report

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This version of the Annual 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 Annual Report takes precedence over translation.

Letter from the Chief Executive Officer

On behalf of the Management Board of Raiffeisenbank Austria d.d., I am pleased to present the key figures from the 2019 Annual Report as audited by KPMG, the international firm of auditors.

Last year, Raiffeisenbank Austria generated a profit after tax of HRK 438 million, while the profit at local Group level was HRK 421 million. The financial results confirmed the success in adapting our business model to challenging business conditions. The negative impact of the falling market interest rates on interest income was offset by a significant increase in the lending portfolio. The growth of non-interest income exceeded the increase in interest income, which pointed to a successful achievement of a higher level of business digitization which accompanied the growth of service income. Operating expenses were realized without significant one-off effects in the past year. Risk provisions reflected the best estimate of the value of financial assets.

Measures to increase operational efficiency continued during the past year. Clients gain new experiences in the use of advanced technologies and expect financial service providers to offer innovative services through modern channels of communication. During the past year, the Bank increased the availability of products and services through modern distribution channels while maintaining a high level of security. Investments in the digitalisation and modernization of the sales network enabled the clients to have a more meaningful relationship with the Bank. Customization of service to clients' needs is performed in accordance with the highest standards within the RBI Group. Synergistic effects are achieved by transferring experience, knowledge and skills according to best practice principles within the group.

Market condition did not change significantly, neither did the regulations governing the operations of financial institutions during the past year. Developments in the financial market were characterized by rising excess liquidity. The regulator issued recommendations for the introduction of restrictive credit policies in the retail business. The operation of the credit registry in retail banking was restored, providing limited credit reports. The Bank responded to growing business and regulatory requirements by improving business support, and its operating result is a benchmark for success in adapting the business model.

Financial markets in the European Union have opened up to new types of entrepreneurs. Service providers in the financial technology sector have been developing innovative financial services and thus strengthening competition in the market. The Bank has adapted to new forms of competition by developing services aimed at increasing customer satisfaction. Long-term customer relationships and a developed sales network are the basis, and technological innovation is an upgrade, in achieving recognition for the Bank's offer.

Advanced technologies have accelerated the change, and innovation is key to preserving market position. The Bank has enhanced its operating model and provided continuous job training and education for its employees to acquire new skills necessary to improve customer satisfaction. Human resources management is developed through a system of staff advancement and rewards.

Raiffeisenbank Austria has maintained its position as one of the leading credit institutions in the Croatian market. Together with the local Group, it provides clients with a comprehensive range of financial products and services. The sales network consists of 63 branches and alternative electronic distribution channels. Branches have been upgraded from a transacting spot and become places of interactive communication with clients.

In the corporate segment, the service has been complemented by credit lines from domestic and international development banks. The Bank provides clients with the support in the use of EU funding. For SMEs an offer tailored to their specific needs has been developed. The demand for private individual loans has changed as a result of increased customer awareness of currency and interest rate risks. When it comes to personal cash loans, there is a growing interest in fixed-interest loans in HRK. The demand for housing loans is fuelled by a government subsidy program for young families.

A sales integration process is under way to optimize costs in the local Group. Declining returns on debt instruments are reflected in the value of assets of the funds. A demand for investment fund products is rising especially in bond funds. The public interest in saving in voluntary pension funds has increased. Attractiveness of the offer of savings and investment products has been diminished by a downwards trend in interest rates on the money market.

Adaptation of the business to market conditions and customer requirements is essential for achieving strategic goals and business plans. By optimizing the use of resources, we have improved service quality and business efficiency. With the efforts of all the employees in the local Group, we continue to develop a complete range of financial services. I thank the management and all staff for their dedication to achieving these goals. Finally, I would like to thank all our clients and business partners, with the hope to continue our successful cooperation.

Liana Keserić,
Member of Management Board

Report of the Supervisory Board

Ladies and Gentlemen,

2019 was a challenging year for business operations of Raiffeisenbank Austria d.d. Zagreb. The excess liquidity accumulated in previous years was successfully invested in loans to customers. Improvement of the operating model continued in order to align business operations with changes in the financial markets and with customer preferences. The digitalization process brings new types of financial services and innovative sales and customer communication channels. The focus of interest of the members of the Supervisory Board, in addition to the traditional monitoring of the achievement of business results in relation to the plans, was the implementation of business and operating model improvement and the processes and results achieved in risk management.

In 2019 the members of the Supervisory Board held four ordinary and seven extraordinary meetings. The overall attendance rate for Supervisory Board meetings in the financial year 2019 was around 80 percent.

The Supervisory Board monitored business performance and risk development at Raiffeisenbank Austria d.d. Zagreb on a regular and comprehensive basis. They regularly discussed with the Management Board about capital adequacy and liquidity and the direction of the bank's operations and risk strategies. The Supervisory Board also elaborated on developments in the area of corporate governance and monitored the further implementation of appropriate policies. During the performance supervisory and advisory activities, the Supervisory Board maintained direct contacts with competent members of the Management Board, the auditor and heads of internal control functions. The Supervisory Board also maintained a continuous exchange of information and views on current issues with representatives of regulators supervising the business of credit institutions.

Furthermore, the Management Board regularly submitted detailed business reports on relevant issues in individual business areas to the Supervisory Board. Between meetings, the Supervisory Board maintained contacts with the Chief Executive Officer and members of the Management Board. Management was available, when required, for bilateral or multilateral discussions with members of the Supervisory Board, including, where applicable, the involvement of experts on issues considered by the Supervisory Board.

The cooperation of the Supervisory Board with the Management Board was based on the relationship of mutual trust and conducted in an efficient and constructive atmosphere. The discussions were open and critical and the Supervisory Board made its decisions after considering all aspects and options. If additional information was needed for more detailed consideration of specific issues, it was provided to the members of the Supervisory Board without delay and in an adequate manner.

In 2019, the Supervisory Board discussed the following specific and important issues: business and operating model improvement, retail strategy, business focus in 2019, developments in the sale of Raiffeisen Pension Insurance Company, organizational changes in the collections area, the replacement of part of the Tier 2 (T2) capital by a new Additional Tier 1 (AT1) instrument, and consumer lawsuits against the bank for CHF-indexed loans.

The Supervisory Board performed its duties in an appropriate manner in accordance with local regulations and the Articles of Association of the Bank.

On this occasion, I would like to thank our clients for their trust, and to employees of Raiffeisenbank Austria d.d. Zagreb for their hard work and dedication in 2019. Their continued commitment in addressing all the challenges ahead will be greatly appreciated.

On behalf of the Supervisory Board,
Andreas Gschwenter,
Chairman of the Supervisory Board

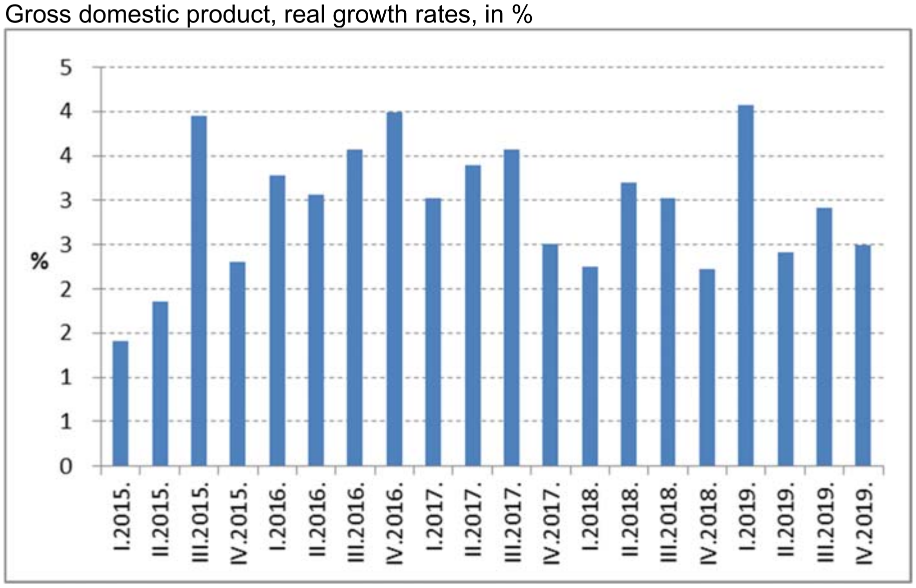
Macroeconomic environment

Raiffeisenbank Austria d.d. Zagreb

- Economic review

In 2019, Croatia's economy grew 2.9 percent year-on-year, thanks to an increase in domestic demand, primarily in personal consumption and investment. Personal consumption increased 3.5 percent year-on year. A high level of consumer optimism has been maintained, driven by rising employment and wages, moderate inflation and reduced borrowing costs. The increase in the volume of construction works results from increased investments which rose 7.1 percent. Increasingly successful withdrawal of funds from EU funds drives growth in investment, as well as strengthens demand for real estate, which is motivated by a high tendency to rent following a series of successful tourist seasons. Government spending increased 3.3 percent without adversely affecting public debt, as generous tax revenues from increased spending raised the revenue side of the budget. In foreign trade, imports rose 4.8 percent and the growth of exports of goods and services reached 4.6 percent.

Gross domestic product, real growth rates, in %



Sources: CBS, Raiffeisen Research

The Croatian economy is increasingly integrating into the European Union common market. The highly euroized domestic financial system is significantly dependent on developments in the euro area. Over the past year, the European Central Bank (hereinafter: the ECB) has stepped up the expansiveness of monetary policy measures. In September it lowered its interest rate on deposits by -0.1 percent. The base interest rate was kept at 0.0 percent and the ECB interest rate on deposits was -0.5 percent. Since November, the ECB has begun to increase liquidity in financial markets. EUR 20 billion is brought into the market through the asset purchase program on a monthly basis. Also, the European Central Bank is active in the secondary market through the purchase of new bonds to replace maturing bonds in its portfolio. High levels of liquidity in financial markets help increase the supply of capital and reduce investors' aversion to risk, which supports lower market interest rates.

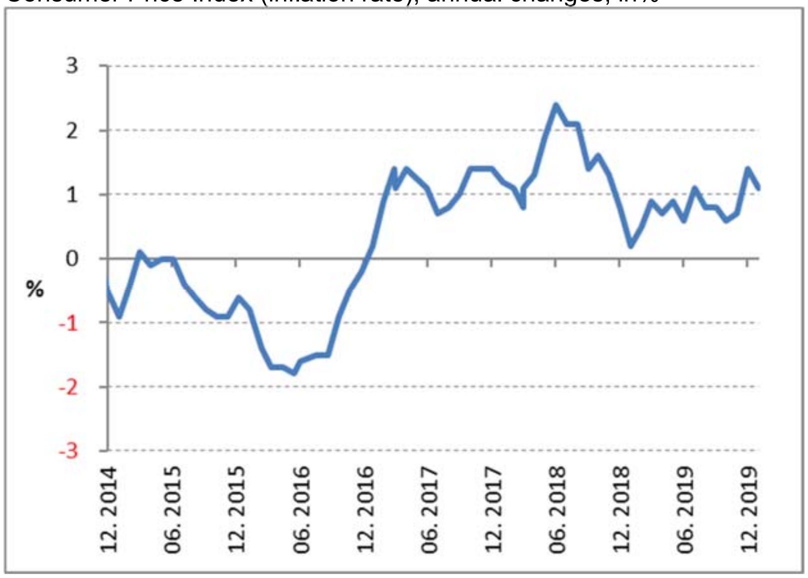
Changes in external financial markets are transferred to domestic capital markets. The low level of base interest rates in the euro area enables the financing of public debt at a historically low funding cost. The fall in interest rates in the financial markets also reduced the financing cost of the budget of the Republic of Croatia. This facilitates the implementation of fiscal consolidation measures and increases the resilience of the financial system to potential shocks. Last year, two out of three rating agencies (S&P and Fitch) raised the credit rating of the Republic of Croatia to an investment grade. In the context of stable exchange rates and moderate to low inflation, monetary policy remained highly expansive, supporting the high liquidity of the monetary system and favourable financing conditions.

Macroeconomic environment (continued)

At the end of the year, the focus of market players was focused on Croatia's expected entry to the European Exchange Rate Mechanism II and establishing the central parity of EUR / HRK. The Government's goal is to enter ERM II in the second half of 2020. Croatia has fulfilled the quantitative criteria for the entry to the exchange rate mechanism (ERM II) and eliminated excessive macroeconomic imbalances, raising the prospect that the introduction of the euro will follow after a minimum period of two years in the exchange rate mechanism. The first step in achieving the targeted introduction of the euro is the Asset Quality Review (AQR) and the stress testing of five large Croatian banks.

In 2020, the economic situation in Europe and Croatia began to decline rapidly due to the COVID-19 virus epidemic. To combat the uncontrolled spread of contagion for which health care systems have inadequate resources, European countries have imposed measures to restrict the movement of people. Ultimate measures include the complete cessation of business activities which depend on consumer mobility. In the baseline scenario, GDP is projected to decline by 4.0 percent in the euro area and by 4.8 percent in Croatia. There is a risks adverse developments in forecasts, as the baseline scenario is based on a projected economic recovery after a three-month decline caused by disruption in economic activity. Continuation of the restrictive measures against the spread of contagion could deepen the economic downturn. On the other hand, government measures to retain employment in crisis-hit businesses, along with generous monetary measures to increase liquidity, may accelerate recovery and thus mitigate the downturn in 2020.

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



Sources: CBS, Raiffeisen Research

- Macroeconomic Indicators

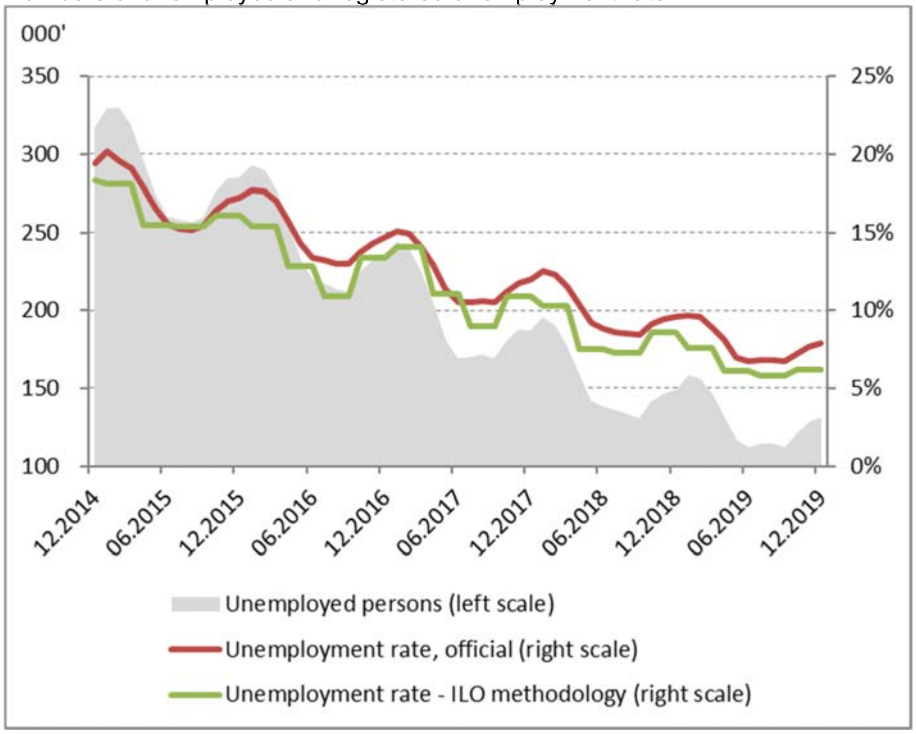
On the supply side, the biggest contribution to growth comes from services related to trade, tourism and construction, while industrial production continues to stagnate with only 0.5 percent growth rate. It is evident that the process of restructuring the manufacturing industry is not yet complete. However, the growth achieved in the services segment enables a stable growth of domestic consumption. Stable and high consumption growth rates partly resulted from the spill-over effects of rising tourist spending on the economy as a whole.

Average annual consumer price inflation in 2019 declined to 0.8 percent, driven by a noticeable slowdown in energy and food prices. The slower rise in energy prices was brought about by the lower contribution of petroleum product prices as a result of the fall in crude oil prices on world commodity markets. On the other hand, the price of food has stagnated under the influence of a reduction in the VAT rate on certain food products.

Macroeconomic environment (continued)

The labour market in 2019 was marked by a continued tendency to reduce the registered unemployment rate with the usual seasonal trends. During the summer months, the official unemployment rate dropped to a historically low 6.7 percent. By the end of the high tourist season, the usual rise in unemployment began, with the average rate of 7.8 percent for the whole 2019. Seasonally adjusted data, which reflect the movement trends, indicate a continuous decline in the unemployment rate throughout the year. Rising emigration trends accelerated the fall in unemployment. Entrepreneurs have an acute problem with the lack of seasonal workforce. Strengthening labour demand boosts wage growth, and helps create political pressure to reduce the burden of taxation and contributions on wages.

Numbers of unemployed and registered unemployment rate



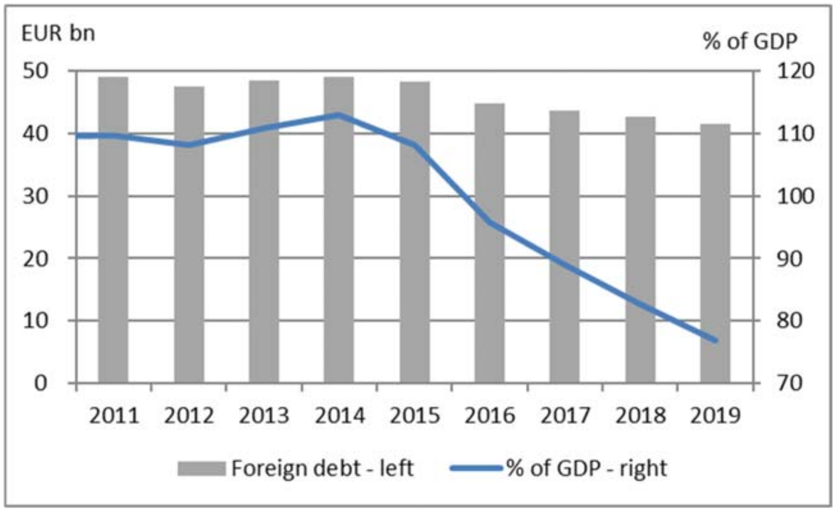
Sources: CBS, Raiffeisen Research

Positive developments in the balance of payments continued, with a significant surplus in the current and capital accounts. In 2019, the current account surplus reached 0.5 percent of GDP. The usual deficit in the commodity account is due to the service-oriented economy, with higher imports than exports of goods. The negative balance on goods is offset by a surplus on services. The main contribution to the surplus in the services comes from tourism revenues, which rose to EUR 10.5 billion. Increasing absorption of EU funds as well as expatriate workers' remittances contributed to improving the balance of payments.

The high liquidity of the domestic financial system has resulted in a reconciliation of the domestic capital cost with the price that potential borrowers can make in foreign capital markets. This eliminates the interest rate difference in the supply of kuna loans in relation to euro-denominated loans. The balancing of the funding cost between the supply on the external market and the internal capital market results in increased customer demand for loans on the domestic market, with the consequent deleveraging on the external capital markets. Ultimately, the level of external debt is reduced in absolute terms, as is the external debt to GDP ratio, which fell by 80.0 percent at the end of 2019.

Macroeconomic environment (continued)

Gross external debt



Sources: CNB, Raiffeisen Research

- Fiscal and monetary movements

In 2019, the successful fiscal consolidation continued. There was a structural surplus in the budget, and with the achieved economic growth, the public debt to GDP ratio decreased to 72.1 percent.

Consolidation of public finances was achieved through the use of favourable cyclical developments and minimal structural change. On the revenue side of the budget, indirect tax (VAT) revenues as well as income from social contributions increased, as a consequence of the growth of business activities and employee benefits. Total direct tax revenues rose due to higher corporate income tax inflows, while easing labour income tax hindered the growth in income tax inflows.

There were no changes in the structure of the expenditure side of the budget as a result of the lack of structural measures. Government borrowing costs expressed through interest expense were lower due to a general decline in market interest rates and debt refinancing activities. Public sector investment expenditure grew due to increased government investment activity backed by EU funds. Social security expenditures increased due to the adjustment of pensions and an increase in expenditures for public service employees.

Monetary policy remained committed to maintaining the stability of the kuna against the euro. Processes in the financial markets and in the economy pushed the EUR / HRK exchange rate down. The average exchange rate in 2019 was EUR 1 = HRK 7.413605, with no year-on-year deviation. Thanks to its commitment to keep the exchange rate stable, the kuna has been one of the most stable currencies in the CEE region for over two decades.

In periods of economic growth, the kuna is exposed to appreciation pressures against the euro. The CNB intervened three times in the foreign exchange market and counteracted growing appreciation pressures by buying foreign currency in the amount of EUR 1,088.9 billion. In addition to reduced fiscal risks and significant foreign exchange inflows from tourism, support for the domestic currency came from surpluses in the current account of the balance of payments, the positive net foreign-currency position of banks, and from rising demand for kuna loans.

Macroeconomic environment (continued)

Summary of macroeconomic indicators for the period from 2015 to 2019.

	2019	2018	2017	2016	2015
GDP & Production					
Gross Domestic Product, % (constant prices)	2.9	2.6	2.9	3.5	2.4
GDP at current prices (EUR millions)	53,969	51,365	49,991	46,638	44,610
GDP per capita at current prices (EUR)	13,270	12,537	11,782	11,094	10,531
Retail trade, % real annual changes	3.6	3.9	4.4	4.4	2.4
Industrial production, % annual changes	0.5	-1.0	1.4	5.3	2.7
Prices, Employment and Budget					
Consumer Prices, %, end of period	1.4	0.8	1.2	0.2	-0.6
%, average	0.8	1.5	1.1	-1.1	-0.5
Producer Prices, %, end of period	1.5	0.5	2.1	-0.1	-4.4
%, average	0.8	2.3	2.1	-4.1	-3.9
Unemployment rate (official rate, avg) *	7.8	9.9	12.4	14.8	17.0
Unemployment rate (ILO, avg)	7.1	8.4	11.2	13.1	16.4
Average net wage, in HRK *	6,457	6,241	5,984	5,685	5,594
General Government Balance, % of GDP [1]	-0.5	0.0	0.9	-0.9	-3.4
Public Debt, HRK bn [1]	288.1	282.8	284.3	282.8	284.4
Public Debt, % of GDP [1]	72.1	74.1	77.8	80.5	83.7
Balance of Payment and External Debt					
Goods and Services Exports, EUR million	27,533	26,590	25,143	22,785	21,473
% change	5.5	5.8	10.4	6.1	9.1
Goods and Services Imports, EUR million	28,366	26,038	24,070	21,462	20,448
% change	7.0	8.2	12.2	5.0	8.5
Current Account Balance, % of GDP	1.5	2.6	3.7	2.6	4.5
Official International Reserves, EUR million, eop	18,560	17,438	15,706	13,514	13,707
Official International Reserves, in terms of months of imports of goods and services, eop	7.9	8.0	7.8	7.5	8.0
Foreign Direct Investment, EUR million, [2]	725	1.110	1.747	1.716	190
Tourism - night stays, % change	1.8	4.0	10.5	9.1	7.8
External debt, EUR billion	43.0	38.8	40.2	41.7	45.4
External debt, as % of GDP	79.8	75.6	82.2	89.3	101.7
External debt, as % export of goods and services	156.2	146.1	160.1	182.9	211.4
Monetary and Financial Data					
Exchange rate, eop, USD / HRK	6.65	6.47	6.27	6.99	6.99
avg, USD / HRK	6.62	6.28	6.62	6.80	6.86
Exchange rate, eop, EUR / HRK	7.44	7.42	7.44	7.56	7.64
avg, EUR / HRK	7.41	7.41	7.46	7.53	7.61
Money (M1), HRK billion, eop	137.2	120.0	99.4	83.5	70.7
% change	14.3	20.7	19.1	18.1	11.4
Broadest money (M4), HRK billion, eop	333.3	324.0	307.2	300.9	287.4
% change	2.9	5.5	2.1	4.7	5.1
Credits, HRK billion	229.5	223.2	218.9	221.5	230.0
% change	2.8	2.0	-1.2	-3.7	-3.0
ZIBOR 3m, %, avg	0.5	0.5	0.6	0.9	1.2
Treasury bills rate 12m, %, avg	0.1	0.1	0.8	1.4	1.9

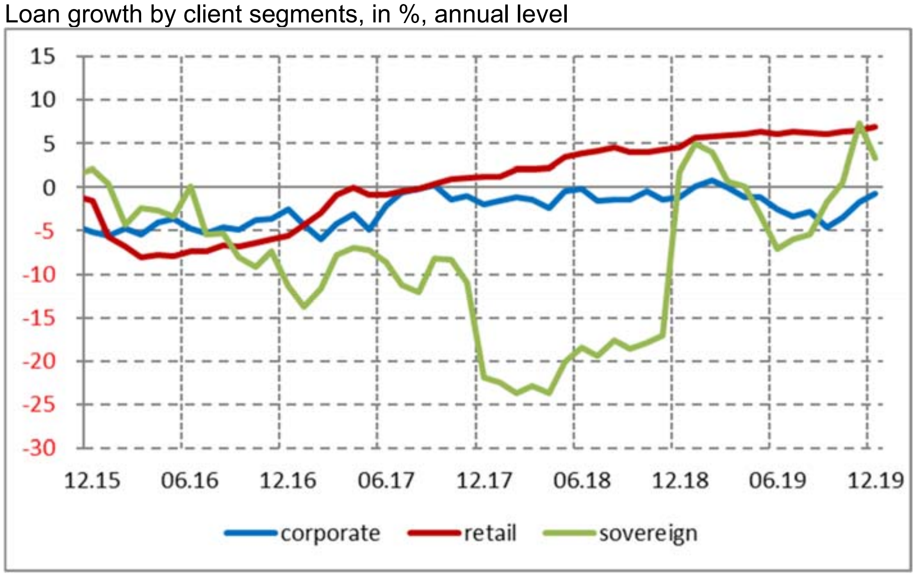
1 according to the ESA 2010 methodology
2 including round-tripping
** series broken as of January 2015 (new CBS's methodology)*
eop - end of period; pa - period average

Management report

1. Market position

Raiffeisenbank Austria d.d. (the Bank) and a local Group of subsidiaries are registered for operation on the Croatian financial market. The Bank is a credit institution with a significant share of the market. By total assets, the Bank was ranked fifth in the market at the end of 2019 with an eight percent market share. Raiffeisen Building Society is a subsidiary of the bank. It is one of three credit institutions in the local housing market that are licensed to provide services under special regulations. Other subsidiaries of the Bank include leasing company as well as investment and pension funds management companies. In 2019, the Bank took over the factoring operation from a subsidiary, which was merged with the Bank. Subordinate financial institutions are significant for the local market.

Loan growth by client segments, in %, annual level



Sources: CNB, Raiffeisen Research

The long-term tendency of lowering lending interest rates drives the demand for bank loans. In 2019, credit institutions recorded a 2.8 percent increase in loans. Retail loans grew by 6.9 percent, whereas corporate loans declined by 3.6 percent. A negative impact on corporate loans came at the beginning of the year from one-off payments on protested shipyard loan guarantees, in the middle of the year from the implementation of the creditors' settlement with debtors from the Fortenova system (formerly Agrokor), and at the end of the year from increased sale of non-performing loans to debt collection agencies.

In the retail lending segment, the growth is driven by increased placements of non-purpose cash loans. In early 2019, the regulator recommended that banks align the criteria for assessing the risk of granting non-purpose loans with a repayment period longer than five years with risk assessment criteria applicable to housing loans. Since then, the growth in non-purpose loans has slowed down. At the same time, the government subsidy program for home loans to younger age groups increased the demand for housing loans. In September 2019, the credit registry resumed operation in retail segment, which was aligned with the regulation on personal data protection. Following the entry into force of personal data protection regulations, the Credit Registry stopped collecting consumer credit data in May 2018, so the renewal of reporting begins with the collection of historical data. A full report on the potential borrower's debt is expected in mid-2020. Until then, credit institutions assess the credit risk of a potential borrower based on information from available sources.

Conditions for corporate banking activities were stable. Despite the stable growth of the economy, the dynamics of corporate lending has not intensified. The stagnation in demand for corporate loans results from rising liquidity in the financial markets, which is spilling over into the corporate sector. Accumulated liquidity surpluses in companies enable more intense lending activities between companies. Therefore, the use of investment loans is increasing, while working capital finance has weakened, as increased liquidity in companies is used to finance the sale of goods and services to customers with an extended payment term.

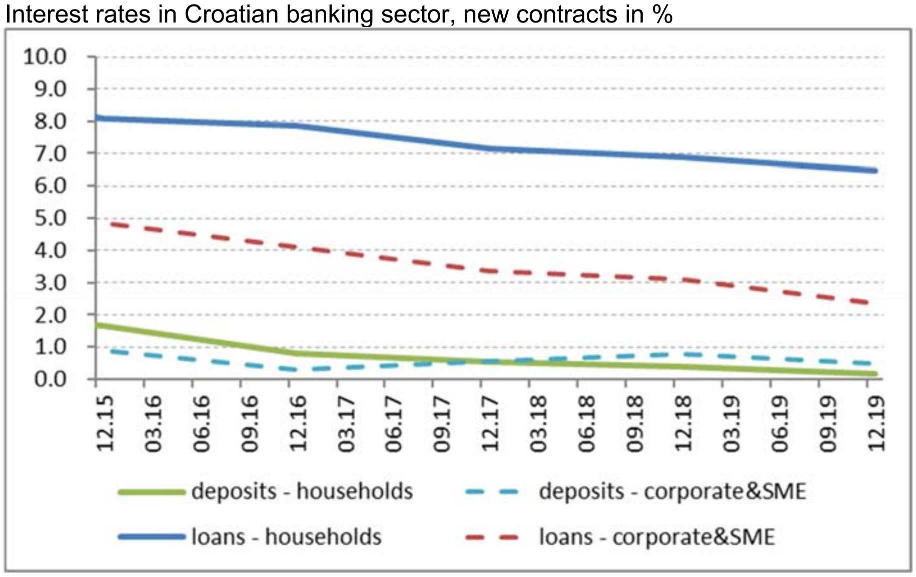
Management report (continued)

1. Market position (continued)

The supply of capital in the Croatian financial market increased as a result of the growing excess liquidity in the system in 2019. The demand for loans was not sufficient to absorb market surpluses on the capital supply side. Consequently, excess supply over demand exerted pressure on the price of capital. Money market interest rates dropped to their historically low levels, as did interest rates offered by banks on customer deposits. Interest rates on loans also declined during the year, which had a positive effect on the disposable income of businesses and households and, consequently, on the ability of borrowers to service their loan obligations.

The results of the Bank and the Group depend on financial market conditions and changes in the real economy. The economic growth and high liquidity in the financial system have improved the collection of accounts receivable, which has had a positive impact on the performance of credit institutions and the operations of financial institutions offering credit substitutes on the market. The lowering of market interest rates had a positive effect on the valuation of assets managed by investment and pension funds.

Interest rates in Croatian banking sector, new contracts in %



Sources: CNB, Raiffeisen Research

The fall in interest rates on deposits did not slow down the growth of bank deposits. Due to the high aversion to investing in higher-risk financial assets, clients continued to increase their deposits kept with banks. The excess deposit supply resulted in lower interest rates offered by banks on time deposits. The banks do not offer interest on demand deposits, and the offer of interest rates on new long-term deposits has come close to zero. Due to the unattractive yield on time deposits, clients prefer to keep funds in sight accounts at the expiry of their time deposits rather than roll over the time deposits. As a result, the share of time deposits in total customer deposits at banks decreased by an additional 6.3 percentage points, reaching 36.5 percent at the end of the year.

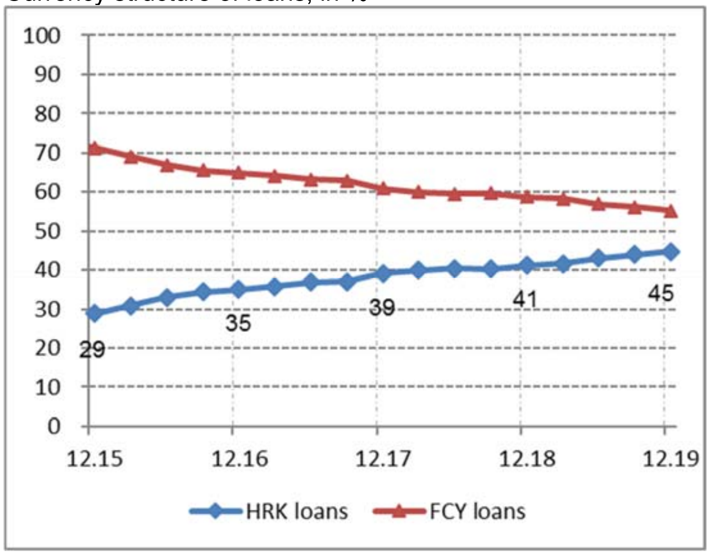
The high level of euroization in deposits decreases in parallel with the loss of client motivation to keep time deposits. The share of foreign currency deposits in total time deposits decreased slightly from 75.9 to 75.4 percent last year. As for the demand deposits, the share of foreign currency deposits changed slightly and stood at 43.3 percent. Due to the uneven currency structure of time and demand deposits, the decrease in the share of time deposits in total deposits results in an increase in the share of kuna deposits from 42.6 to 45 percent of total deposits.

The steady growth of customer deposits enables generous financing of bank loans from primary sources. Therefore, the share of secondary sources has become negligible for the capital pricing in the domestic financial market. Changes in the currency structure of deposits corresponded to changes in demand for loans, as the increase in kuna deposits supports an increase in demand for kuna loans.

Management report (continued)

1. Market position (continued)

Currency structure of loans, in %



Sources: CNB, Raiffeisen Research

With historically low interest rates on loans, there is a growing demand for loans with longer maturities and fixed interest rates. This way clients seek to fix the cost of financing at a low level in the later years of loan repayment too, when market interest rates are expected to rise. Increased use of long-term kuna loans with fixed interest rates (in the initial repayment period or until maturity) results in a widening maturity gap in the banks' balance sheets, while simultaneously reducing the average maturity on the funding side.

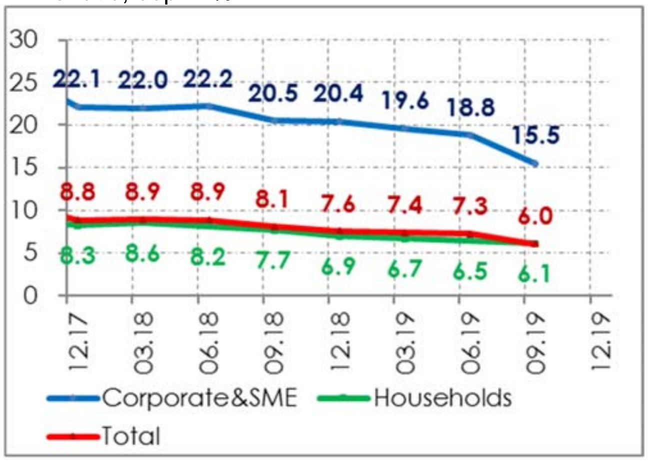
The declining trend in credit risk in the Croatian financial market was reflected in the decreased share of non-performing loans. During the past year, banks continued to clean up their loan portfolios. In addition to debt settlement with borrowers, the sale of non-performing loans (NPLs) to debt collection companies was also significant. In 2019, a total of HRK 3,224 million worth of loans were sold. The debt sale had a negative effect on the amount of total loans in the balance sheets of credit institutions, but at the same time accelerated the decrease in the non-performing loan ratio. At the end of 2019, the non-performing loan ratio in the system was reduced to 6.0 percent, down 1.6 percentage points from the previous year. The asset quality review (AQR) process is underway at five large banks to identify the need for additional asset value adjustments. In addition, judgments in lawsuits initiated by consumers against banks which granted CHF-indexed loans resulted in increased risk of losses from court cases.

In the retail banking business, the demand for loans and the propensity to save depend on the movement of real income and the expected value of the assets of households. The real loan repayment burden decreased due to lower interest rates on loans, while real household income increased thanks to growing employment rates and wages and reduced income tax. Positive shifts in disposable household income led to increased demand for loans. Restrictive housing loan regulations applicable to the below-average income category of clients boosted the demand for non-purpose personal cash loans with longer maturity. Following the regulator's recommendation issued to banks to balance the risk assessment criteria for long-term cash and home loans, the demand for home loans increased.

Management report (continued)

1. Market position (continued)

NPLs ratio, eop in %



Source: CNB, Raiffeisen Research

The banking system is significantly exposed to the country risk of the Republic of Croatia. Factors affecting a high country risk in banks' assets are not only direct or indirect government borrowing in the domestic financial market, but also the regulations by which the central bank maintains financial stability. Additional factors of country risk exposure include excess liquidity maintained by banks in the accounts with the CNB, investment in debt instruments of the Republic of Croatia, direct government borrowing from banks and other financial institutions, and government guarantees for loans taken by public or private companies. Due to the mandatory reserve requirement, banks maintain part of their liquid assets in their accounts with the Croatian National Bank. At the end of 2019, the reserve requirement was 12 percent of banks' liabilities. The CNB pays no interest on the reserve requirement accounts.

In line with changes in financial market conditions, the Bank's credit policy was slightly relaxed last year, except in the area of retail lending. In the second half of the year, a consumer lending policy was aligned with the recommendation issued by the regulator, which resulted in more restrictive conditions for assessing the creditworthiness of potential borrowers of long-term cash loans. Market conditions have been conducive to the achievement of credit policy goals, and the average risk of the corporate sector was reduced as the economy grew. In the private individual sector, the employment rate and the average wage are increasing, which, with the fall in interest rates on loans, increases the creditworthiness of potential borrowers. The loan portfolio quality in retail exceeded the quality of the corporate portfolio. Favourable developments in the economy reduce credit risks on the corporate side as well.

2. Business activities of the Bank

Raiffeisenbank Austria d.d. Zagreb (hereinafter referred to as: the Bank) was incorporated in December 1994 as the first foreign-owned bank in Croatia, with the strategic objective of building a comprehensive financial services offering to clients. Since 1999, the Bank has built a sales network and, parallel to the opening of branches, it established subsidiaries which provide financial services in the areas regulated by special regulations (hereinafter: the Group). At the end of 2019, the Bank provided customer service through 63 branches and 453 ATMs in the Bank's own network. Additionally, RBA card holders can use ATMs on the Euronet network under the same conditions. The Bank has installed over 13.5 thousand active POS devices with merchants in Croatia. The development of digital sales channels accelerated in 2019 and the number of users of direct bank services via the Internet and mobile applications reached 45 thousand businesses and 216 thousand in the retail segment.

Until Croatia's banking system has been incorporated into the European banking union, where all European banks operate under common rules under the single supervision, the Bank operates in accordance with the rules of local regulators supervising the operations of credit institutions (Croatian National Bank) and financial institution services (Croatian Financial Services Supervisory Agency). All members of the local Group are registered in Croatia and operate in accordance with Croatian regulations.

2. Business activities of the Bank (continued)

Customer demand for financial services and changes in market regulation on the one hand, and competitiveness of the bank's offer on the other, are factors which determine the operations of the Bank and the local Group. The Bank has implemented a corporate adaptive culture and an agile approach to business improvement, which enables it to achieve the highest level of excellence and value for customers while increasing internal performance efficiency. The strategic goal of the business is to increase customer satisfaction, which is achieved through dynamic organizational development, service quality improvement, teamwork and motivation.

At the end of the year, the Bank had 1,794 employees. The staffing level decreased due to the change in the operating business model. Increased use of digital sales channels and self-service devices reduces workforce requirement in lower-complexity jobs and increases the need for specialists in advanced technology platforms. The adjustment of the personnel structure will continue in the coming years. The number and structure of employees are defined by the long-term strategic plan and aligned with regulatory requirements and business plans. The Bank is managed by a Management Board, which had seven members in 2019.

3. Financial result of the Bank

Total assets at the end of 2019 amount to HRK 34,076 million for the Bank stand alone. Compared to the previous period, an increase of HRK 1,447 million was realized. At the customer loans is realized a increase of HRK 2,357 million, while placements to banks decreased by HRK 1,002 million. The increase in asset based on the increase in loans was financed primarily through a decrease in excess liquid assets and from an increase in bank deposits. The share of liquid assets and investments in financial assets without loans decreased to 41 percent of total assets and the share of loans to customers increased to 54 percent. Total loans to customers amounted to HRK 18,456 million at the end of the year having increased by 15 percent year-on-year.

Government subsidies for home loans granted to a younger population boosted the demand for home loans. The application of restrictive consumer housing lending regulations limits the ability to grant home loans to a portion of the lower income population. However, lowering interest rates on loans has a positive effect on credit rating, so the number of potential home loan borrowers has gradually increased contributing to the demand growth. Demand for non-purpose cash loans remained high despite the implementation of more restrictive credit assessment requirements for potential borrowers of loans with maturities over five years.

In the retail segment, the currency structure of loans continued to change. Euro-denominated loans are gradually being paid off and new loans are mostly originated in kuna. Consequently, the share of kuna-denominated loans in total loans has increased. Retail loans indexed to the foreign exchange rate increased by 2 percent in the annual period, while kuna-denominated loans increased by 20 percent. At the end of the year, kuna-denominated loans exceeded 68 percent of total retail loans.

The demand for fixed-interest rate loans prevailed in retail segment. Regulators warnings about a possible rise in market interest rates in the future have raised borrowers' awareness of interest rate risks. For loans with a repayment period of two to seven years, consumers tend to negotiate a fixed interest rate until maturity, since the difference over the variable interest rate is not significant based on interest rate risk protection. However, for home loans with longer maturities, variable interest rate loans still prevail. Affordable interest rate hedging motivated clients to negotiate a temporary fixed interest rate in the initial repayment period for loans with longer maturities.

Total customer deposits increased by HRK 248 million in the previous year. Deposits of companies and other non-credit institutions recorded a 4 percent decrease, while a 5 percent increase was recorded in retail segment. Private individual deposits amounted to HRK 14,458 million, accounting for 49 percent of total liabilities of the Bank at the end of the year. With the prevailing excess liquidity, the Bank reduced its yields on time deposits, seeking to motivate clients to invest in higher risk financial assets. Due to lower returns on alternative investment types and high risk aversion of private individuals, total retail deposits did not decline. On the contrary, they increased with the continuation of the maturity structure shift: term deposits decreased by 13 percent and demand deposits increased by 19 percent. The share of demand deposits in total retail deposits reached 64 percent. For corporates and other non-credit entities, the share of demand deposits in total deposits was 98 percent, the term deposits having decreased by 70 percent in the past year.

3. Financial result of the Bank (continued)

Tier 1 capital (T1) was HRK 4,674 million, having increased by 11 percent compared to the beginning of the year. The major contribution to the increase in share capital comes from the issue of the Additional Tier 1 (AT1) instrument in the amount of HRK 297 million (EUR 40 million). The subordinated instrument from which Tier 2 capital is formed was repaid In the same amount. Also, the subordinated equity instrument in the amount of HRK 149 million (EUR 20 million) was renewed with a positive effect on the bank's total capital (T1 + T2). At the end of the year, the Bank's capital adequacy ratio stood at 20.75 percent.

Bank financial highlights for the period from 2015 to 2019

	Bank 2019 HRK millions	Bank 2018 HRK millions	Bank 2017 HRK millions	Bank 2016 HRK millions	Bank 2015 HRK millions
From the Balance sheet					
31 December					
Total assets	34,076	32,629	31,379	31,416	31,181
Shareholders' equity	4,675	4,226	4,458	4,450	4,014
Customer accounts	25,628	25,380	23,020	23,285	22,964
Loans to customers	18,456	16,099	16,453	16,213	17,387
From Income statement for the year ended 31 Deceber					
Operating income	1,430	1,353	1,439	1,557	1,448
Operating expenses	840	884	1,105	1,481	822
Profit before tax	436	239	475	585	(311)
Net profit for the year	438	219	396	460	(241)

Ratios	%	%	%	%	%
Return on average shareholders' funds	10.36	5.39	9.74	11.46	(5.75)
Return on average assets	1.34	0.68	1.26	1.47	(0.77)
Capital adequacy ratio (in accordance with the Croatian National Bank methodology)	20.76	20.60	22.48	22.17	21.13
	HRK	HRK	HRK	HRK	HRK
Earninhs per share	121	60	109	127	(66)

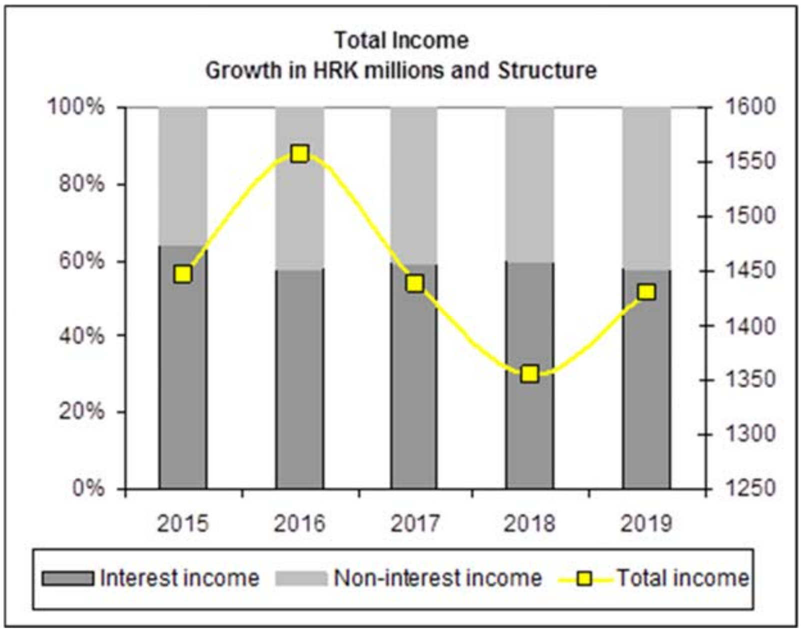
In 2019, the Bank made HRK 438 million in profit after tax. High liquidity prevailing in the financial markets resulting in a decrease in interest rates negotiated by the Bank on both the assets and the liabilities. Returns on debt investments declined but gains have been made on the revaluation of the portfolio which is valued at market prices.

Net interest income has increased by 2 percent year-on-year, despite a fall in interest rates on loans and in yields on debt instruments, because the credit growth has increased the basis for earning interest income. Net income from fees increased by 14 percent, while net income from trading in financial instruments and other income increased by 7 percent year-on-year.

Management report (continued)

3. Financial result of the Bank (continued)

Total income (growth in HRK mn and structure)



Total operating expenses amounted to HRK 840 million, down 5 percent year-on-year. However, if we exclude the one-off effect on operating expenses of HRK 42 million in the base period - HRK 29 million of the final decrease in the value of the investment in Raiffeisen Factoring, a further HRK 9 million of the decrease in the value of the investment in Raiffeisen Consulting and HRK 3 million of subsequent loan conversions costs; the ordinary operating expenses of the Bank remained at the same level. No major changes were recorded in the expense structure either. Deposit insurance premiums are calculated based on the amount of insured deposits, and the amount of the premium depends on the Bank's risk profile. Liabilities for deposit insurance premiums increased one percent year-on-year, while the cost of establishing bank resolution fund decreased by 18 percent.

Based on risk, the Bank's operating result was reduced by HRK 154 million. The largest negative impact on the provisioning costs came from the provisions for litigation costs in the retail segment, for individual lawsuits brought against the bank by consumers who had taken CHF-indexed loans indexed in the period 2004-2008 from the Bank. Following the rulings rendered in favour of consumers by the Supreme Court of the Republic of Croatia in a collective lawsuit brought by consumers against banks that advanced CHF-indexed consumer loans, the number of individual lawsuits against the Bank increased, and therefore an additional HRK 148 million of provisions for potential litigation losses were formed. The provisioning costs in other segments was not significant. The growth of the economy in the context of substantial excess liquidity in the financial system had a positive effect on the recovery of debt, and the increase in the real estate prices facilitated the sale of real estate pledged to collect debt.

4. Business development of the Bank

The founder of the Bank is Raiffeisen Bank International (RBI), an Austrian banking group managing a network of banks and related financial institutions in the Central and Eastern Europe (CEE) region. Affiliation with a strong international banking group offering a broad-range financial service enables the transfer of experience gained from years of operations in the developed financial and emerging markets. Positive synergistic effects are also achieved by introducing more advanced operational support and setting high standards of quality in customer relationships, thus enhancing the service offer and encouraging employee innovation.

Along with the activities aimed at increasing operating income, business development is based on implementation of measures to improve productivity and safety standards, introduction of advanced technologies and business process management tools. Professional, organizational and technological resources are focused on increasing the quality of service and achieving lower unit costs per transaction.

4. Business development of the Bank (continued)

Investments in technology and business process development result in an innovative offer and customised financial service.

The Bank's priority in developing business is to adapt to changes in the regulation of credit and other financial institutions. This is ensured enhancing functionalities of the sales and support system. In developing business processes and support functionalities, the Bank also places a focus on adjusting its offer to changing market conditions. The improvements are also designed in order to streamline the Bank's business processes within the affiliated international financial group (RBI). In future the Bank expects a moderate increase in the demand for loans, with the entry of new competitors providing of customer service. Therefore, development activities are geared towards increasing service quality and innovation, and this is where we expect the strongest competition in the coming period.

The strategic goal of business development of the Bank is the introduction of innovative sales channels for standard and new types of services sold on digital platforms. This way, the Bank and the local Group adapt to customer requirements while continuously maintaining a high level of service quality and security of client transactions.

5. Events after the end of the financial year

At the session of 30 January 2020, the Civil Department of the Supreme Court of the Republic of Croatia issued its legal position, stating that the limitation period in the case of a restitution claim under which the contracting parties are obliged to restore to each other all receipts received under a null and void contract, and in the case of a claim under Article 323 paragraph 1 of the Civil Obligations Act ZOO/05 (Article 104 paragraph 1 of the Civil Obligations Act ZOO/91), as a consequence of finding the contract null and void, shall commence as of the final date of the court decision which established or otherwise determined the contract to be null and void.

The legal position serves to harmonize case law. On the basis of this position, the Bank is unable to assess the impact on the individual lawsuits which are or will be pending in the future.

In the test case, the Supreme Court of the Republic of Croatia issued its ruling on 4 March 2020, stating that the loan conversion agreement concluded pursuant to the Act on Amendments to the Consumer Credit Act (Official Gazette no. 102/15) has legal effects and is valid in cases when the provisions of the underlying loan agreement which govern the variable interest rate and the foreign currency index are declared null and void. Based on this court ruling the Bank estimates that there will be a lower interest of consumers ,who had accepted an offer to convert a loan from CHF to EUR in September 2015, for seeking redress. The interest of consumers who have not converted their loans under this regulation for initiating individual disputes will not change after the ruling issued in the test case.

On 22 January 2020 Mr. Michael Georg Mueller resigned as CEO of Raiffeisenbank Austria d.d. (RBA).

The RBA Supervisory Board nominated as new CEO Ms. Liana Keseric, Member of the Management Board for IT and Central Operations, who will take the office of the CEO following the official approval of the Croatian National Bank.

On 17.03.2020 the Government of the Republic of Croatia made the decision to implement the first phase of measures to support economy in the wake of the coronavirus outbreak. Out of 63 measures adopted, commercial banks have a duty to implement three measures previously agreed upon by the representatives of banks („HUB“ - Croatian Banking Association), the banking sector regulator („CNB“ - Croatian National Bank) and the involved government departments (Ministry of Finance, „HBOR“ - Croatian Bank for Reconstruction and Development, „HAMAG“ - Croatian Agency for SMEs).

The first measure is directed at loan borrowers, businesses and private individuals whose repayment ability has been temporarily affected by the epidemic. Banks will allow a grace period on overdue loan instalments / annuities for a period of three months (April - June). During this period, regular interest will accrue and banks will not take enforcement measures (foreclosure, activation of collateral) to collect debt. It is a horizontal measure available to all debtors, businesses and private individuals, if their creditworthiness is impaired due

5. Events after the end of the financial year (continued)

to declined income. Banks will be processing customer applications for loan repayment holiday in an expedited procedure.

The second measure is the granting of liquidity and working capital loans to companies. These loans can be used by companies specifically to pay wages, provided that they do not reduce the number of employees in comparison to the end of 2019, and for payment to suppliers, with the exception of liabilities to financial institutions. Banks will grant loans for a term of up to three years following a six-months loan drawdown period. These loans are targeted at companies suffering from temporary business losses due to the epidemic, if they were they were categorized in the performing category at the end of 2019. They will remain in that group until June 2021 regardless of any change in creditworthiness. For loans granted to the SME segment, HAMAG will grant a government guarantee for 80 percent of the loan amount. For large companies, HBOR will participate in financing 50 percent of the amount with 0 interest in the first year of repayment, and provide a guarantee for 50 percent of the second half of the loan. Guarantors and commercial banks will assess whether companies qualify for these loans using data from centralized databases of the Financial Agency.

The third measure is the reprogramming of corporate loans without reclassifying debtor into default status. During the three-month period in which debtors can request a loan moratorium, banks will restructure loans for companies whose creditworthiness is affected by the coronavirus outbreak by offering conditions (repayment term, HBOR and HAMAG guarantees) which are identical to the conditions applicable to new liquidity loans.

The spread of the COVID 19 infection may have a significant impact on the operations of the Bank and the local Group. Disruption of economic activities in order to contain the epidemic will reduce the creditworthiness of many borrowers and clients with other debt instruments. In the corporate sector, most of the service companies suspended service. Due to the disruption of the raw materials supply chain on the one hand, and the absence of demand for products on the other, production in the manufacturing sector declines abruptly. Consequently, a decline in consumer confidence will lead to a lower demand for loans in the retail segment.
The Government's economic support package may mitigate the adverse impact of epidemic containment measures on the Bank's and Group's operations. By taking on much of the risk of lending to affected companies in the medium term, the government seeks to increase liquidity in the corporate sector by increasing credit demand. The expected growth in debt restructuring and cash flow loans in the corporate segment should compensate the lack of demand for loans in the retail segment.

On 22 March 2020, the City of Zagreb and its surroundings were hit by a very strong earthquake. The magnitude of the earthquake was 5.5 on the Richter scale, and the intensity at the epicentre, which was 7 kilometers from the centre of Zagreb, was level VII on the MCS scale. In the wider epicentral area, the earthquake caused considerable damage, primarily to older buildings without reinforced concrete construction. Most of the buildings in the old part of Zagreb, which are Croatia's cultural heritage, have been damaged. The assessment of damage on over 10,000 buildings in Zagreb and the surrounding area are being slowed down by measures restricting movement of people due to the epidemic, so the final amount of damage report is not expected before summer.

Management report (continued)

6. Research and development activities

In 2019, the Bank improved business processes and support but did not participate in research and development activities. The Bank has maintained its position among leading financial institutions in the application of advanced customer access technologies.

7. Information on repurchase of own shares

The Bank did not repurchase its own shares in 2019.

The Bank completed acquisition of the subsidiary Raiffeisen usluge d.o.o., legal successor of Raiffeisen Factoring d.o.o. With this acquisition the Bank took over the tax loss of Factoring in the amount of HRK 467 million and accounted for HRK 84 million in deferred tax assets.

8. Bank subsidiaries

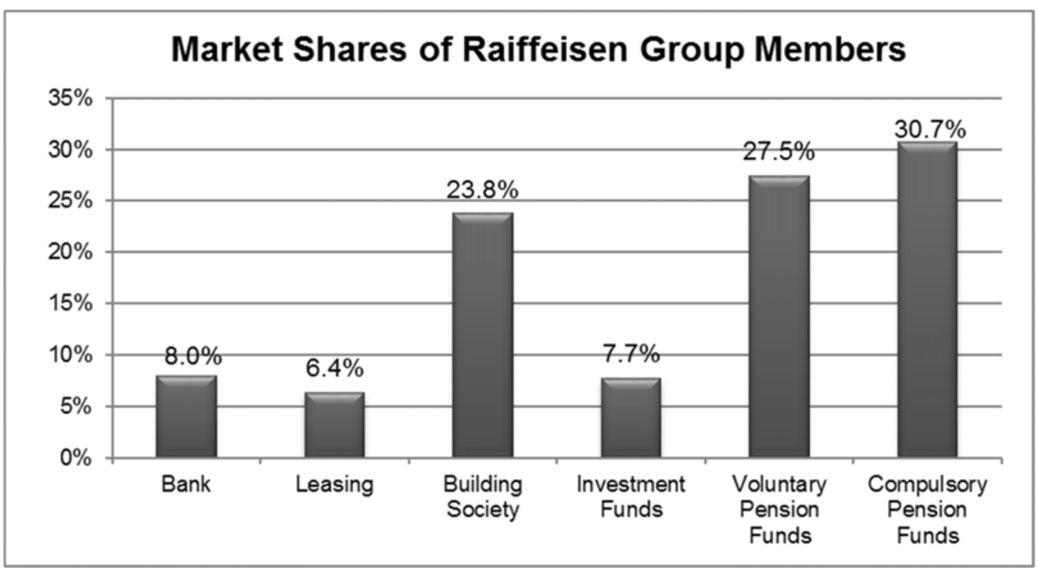
The Bank commenced operations on the Croatian financial market in December 1994, being established as a universal commercial bank. Since 1999, it has been developing its local Group of subsidiaries. The development of the Group is aimed at providing a comprehensive range of financial services to clients.

At 31 December 2019 the local Raiffeisen Group consisted of the following legal entities, which are wholly owned by the Bank:

- Raiffeisen stambena štedionica d.d. (building society)
- Raiffeisen mirovinsko društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.
- Raiffeisen mirovinsko osiguravajuće društvo d.d. (pension insurance company)
- Raiffeisen Invest d.o.o.
- Raiffeisen Leasing d.o.o.
- Raiffeisen Consulting d.o.o.

The Group's total assets at 31 December 2019 amounted to HRK 36,844 million, having increased by 5 percent year on year. In the asset structure, loans to customers increased by HRK 2,404 million, while liquid assets and investments in financial assets other than loans decreased by HRK 864 million.

Market share of Raiffeisen Group members



At the end of 2019, assets under management in the three mandatory pension funds amounted to HRK 34,590 million, with an additional HRK 1,711 million worth of assets under management in one open and four closed voluntary pension funds. In the structure of assets managed by a pension company, 95 percent are assets of mandatory pension funds. The number of members in Raiffeisen pension funds at the end of the year was as follows: 595 thousand members in mandatory pension funds and 86 thousand members in voluntary pension

8. Bank subsidiaries (continued)

funds. The 14 percent annual growth in the amount of assets managed by a pension company is based on the contributions made by fund members and the realized fund returns.

Assets in investment funds managed by Raiffeisen Invest increased by 29 percent to HRK 1,810 million at the end of the year. At the end of the first quarter, money market funds transformed into bond funds. The change in investment structure is a consequence of negative returns on money market instruments. Although yields on investments in long-term debt securities were also reduced, the difference in yields in relation to money-market instruments was sufficient to encourage investment in bond funds. Local stock prices increased in the past year, but the risks of investing in equity instruments have remained too high to encourage greater investor interest in equity funds.

Building societies are credit institutions specializing in the provision of special purpose savings and housing loans. The products include long-term savings with government incentive and fixed-rate housing loans. Client interest in housing savings and loans depends on alternative market offer and payment of government incentives for housing savings.

Government incentives are calculated on the basis of realized market interest rates. Due to the fall in interest rates, the amount of government incentives decrease as well. In 2015 they amounted to 4.9 percent of the savings achieved in the accounting year, in 2016 they were reduced to 4.1 percent, in 2017 to 3.3 percent, in 2018 to 1.8 percent, in 2019 to 1.2 percent, and the incentives in 2020 are set at 0.7 percent. In the housing loans market, there has been an increased interest in fixed-rate home loans with government subsidy. As a result, the low interest in loans offered by building societies resulted in a 2 percent slower growth in Raiffeisen building society assets.

Raiffeisen group financial highlights for the period from 2015 to 2019

	Group 2019 HRK millions	Group 2018 HRK millions	Group 2017 HRK millions	Group 2016 HRK millions	Group 2015 HRK millions
From Balance sheet at 31 December					
Total assets	36,844	35,165	34,178	35,364	35,058
Shareholders' equity	4,941	4,506	4,685	4,890	4,326
Customer accounts	26,561	26,233	23,780	24,144	23,640
Loans to customers	19,867	17,463	17,745	18,504	19,626
From Income statement for the year ended 31 December					
Operating income	2,055	1,804	1,874	2,062	1,990
Operating expenses	1,445	1,233	1,212	1,877	1,231
Profit before tax	434	328	290	695	(182)
Net profit for the year	421	283	188	535	(150)
Ratios	%	%	%	%	%
Return on average shareholders' funds	9.34	6.04	3.84	12.17	(3.35)
Return on average assets	1.19	0.82	0.54	1.52	(0.42)
Capital adequacy ratio (in accordance with the Croatian National Bank methodology)	19.99	19.32	20.48	20.19	19.30
	HRK	HRK	HRK	HRK	HRK
Earnings per share	116	78	52	147	(43)

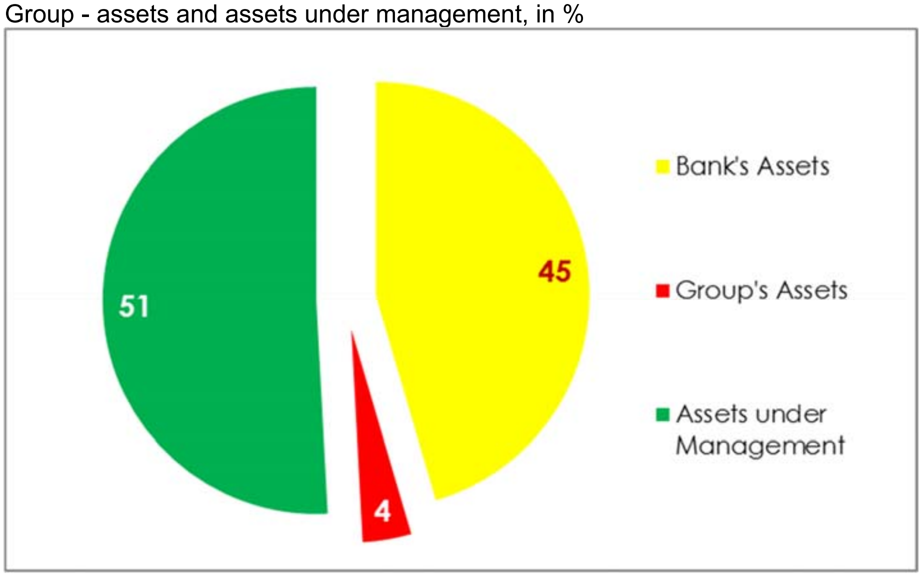
In 2019, the Group's total liabilities increased by HRK 1,244 million. The share of customer deposits in the Group's total liabilities is 83 percent and the secondary funding sources account for 12 percent of total liabilities. In addition to the bank, the major part of the secondary sources of funding relates to borrowings of Raiffeisen Leasing and a smaller portion to Raiffeisen Consulting loans. At the end of the year, borrowings amounted to HRK 1,995 million and bank deposits stood at HRK 1,171 million. Total customer deposits amounted to HRK 26,561 million. The share of private individual deposits in total liabilities was 49 percent. At the end of 2019, the Group's equity amounted to HRK 4,941 million, with capital adequacy ratio of 20 percent.

8. Bank subsidiaries (continued)

The Group's profit after taxation in 2019 was HRK 421 million. All active members of the Group achieved a positive result. In addition to the Bank, Raiffeisen Pension Company made significant profits within the Group. The contribution of other Group companies was not significant.

The Group's net interest income amounted to HRK 898 million, up by 3 percent on the year before. At the Group level, credit growth had a positive effect on net interest income. Net fee and commission income amounted to HRK 501 million, up 8 percent compared to the year before. Fee income is the basic income of the Group members which manage the assets of the pension and investment funds. The largest net fee income of the non-banking members of the Group is generated from the management of mandatory pension funds. The increase in pension fund assets with high yields expands the basis for the calculation of fund manager's fee. The level of the management fee for mandatory pension funds is determined by the regulator. By reducing the fee rate, the regulator offsets the positive contribution of the increased base to the company's revenues.
Other non-interest income amounted to HRK 657 million, up by 40 percent compared to previous period. Income from trading and valuation of financial assets also generated a gain of HRK 166 million, protection instruments recorded a loss of HRK 3 million, and other operating income a gain of HRK 491 million.
Other income includes operating income from operating leases of HRK 46 million and income from gross premiums on pension insurance contracts amounting to HRK 386 million.
Structure of the operation of the Group

Group - assets and assets under management, in %



The total income of the local Group was HRK 2,055 million, having increased by HRK 249 million year – on year. The Group's operating expenses amounted to HRK 1,445 million, of which HRK 236 million relates to technical provisions for pension insurance, and an additional HRK 194 million of administrative expenses for the increase in reserves. Operating expenses increased by HRK 231 million on the year before. Operating expenses account for 71 percent of the Group's total income.

The Group had HRK 155 million of impairment losses, down by 36 percent on an annual basis. The contribution of other members of the local Group to the losses was not significant. The Group recorded a positive operating result of HRK 458 million. On annual basis the net result increases by 71 percent.

9. Financial instruments and related risks

The Bank and the local Group invest assets in financial instruments, thus generating risk exposure. Risk management is within the scope of competence of the Bank's Management Board and is operationally implemented by organizational units for risk management and risk control. As at 31 December 2019, the Bank's assets were invested in various financial instruments, with loans to customers and debt securities accounting for a significant portion.

9. Financial instruments and related risks (continued)

Major types of financial risks to which the Bank and the local Group are exposed include credit risk, liquidity risk, market risk and operational risk. Market risk includes exchange rate risk, interest rate risk and equity price risk.

At the Group level, a comprehensive risk management system has been set up. It includes introduction and implementation of policies and procedures, setting limits for acceptable level of risk for the Group. Limits are defined by risk type in order to maintain the risk exposure within the risk appetite defined by the overall strategy, which is above the capital adequacy requirement. For the purpose of effective operational risk management, appropriate operational risk management methods and tools are applied at the Group level.

Credit risk

Credit risk is the risk that the counterparty to a transaction with the Group will default on its payment obligation or contingent liability commitment.

At the reporting date, the Bank's total credit risk exposure to all customer segments was HRK 31,203 million in assets and HRK 8,716 million in off-balance sheet items. At the Group level, credit risk exposure amounted to HRK 33,912 million in assets and HRK 8,930 million in off-balance sheet items.

Positive economic trends were reflected in the reduction of non-performing loans. At the end of 2019, the Bank's total non-performing loans amounted to HRK 1,058 million out of a total exposure of HRK 41,094 million. Loan loss provisions were formed in the amount of HRK 815 million, covering 77 percent of non-performing loans. At the Group level, non-performing loans totalled HRK 1,215 million out of a total exposure of 44,055 million of total placements. Loan loss provisions amounted to HRK 840 million and covered 69 percent of non-performing loans.

Liquidity risk

Maturity transformation is a function that banks generally perform in the financial market. A consequence of the maturity transformation is a continuous reporting gap between inflows and outflows in a specific time period (liquidity gap). Liquidity gaps lead to exposure to liquidity risks. They arise in the form of a risk that the Bank will not be able to finance (refinance) its positions on acceptable terms at appropriate maturities and a risk that the Bank will not be able to effectively monetize its assets within an appropriate timeframe.

The Bank and the local Group have aligned their business activities with legal provisions governing liquidity risk and with group and internal regulations on liquidity reserve. At 31 December 2019, the liquidity risk exposure of the Bank and Group was in line with the strategy and within the defined limits.

Market risk

Market risk is the risk of a negative impact of changes in market parameters, such as interest rates or foreign exchange rates, on the Group's income or the valuation of its positions in financial instruments. Assessment of market risk exposure is based on changes in foreign exchange rates, interest rates, credit spreads, equity and commodity prices, and other market parameters.

Interest rate risk

The financial assets of the Bank and the local Group are generally interest bearing, as are most financial liabilities. Assets and liabilities mature, and the interest rates are reset ,in different intervals or in different patterns. To a certain extent profit of the Bank and Group is sensitive to interest rate movements. Profit is also affected by the currency structure of assets, liabilities and capital and reserves. The Bank and the Group hold a significant share of interest bearing assets and liabilities denominated in foreign currencies.

Exchange rate risk

Part of the assets of the Bank and the Group are denominated in foreign currencies, prevailingly in euros. Exposure to exchange rate risk is the risk of losses incurred in foreign currency open positions. In order to hedge against currency risk, the Bank and the Group use derivative financial instruments.

9. Financial instruments and related risks (continued)

Exposure to exchange rate risk arises from transactions in loans denominated in foreign currencies, deposits denominated in foreign currencies, and from investment and market activities. This exposure is monitored on a daily basis, in accordance with internally determined limits set for individual currencies and in the total amount of the maximum open foreign currency position. The exposure of the Bank and Group to exchange rate risk at the reporting date is in line with the strategy and within the defined limits.

Equities price risk

Equity price risk is is the risk that arises from equity price volatility, and it affects fair value of equity investments and other instruments the value of which derives from equity investments. Primary exposure to price risk arises from equity securities that are measured at fair value through profit or loss. The exposure of the Bank and Group to to equity price risk at the reporting date is in line with the strategy and within defined limits.

10. Responsibilities of the Management

Pursuant to the Croatian Accounting Act, the Management Board of Raiffeisenbank Austria d.d. Zagreb (hereinafter the Bank) is required to ensure that financial statements are prepared for each financial year in accordance with the applicable accounting framework, so that those financial statements give a true and fair view of the financial position of the Bank, and of the results of its operations and cash flows as at and for the year ended 31 December 2019.

Having performed appropriate assessment, the Management Board has a reasonable expectation that the Bank has adequate resources to continue in business for the foreseeable future. For this reason, the Management Board continues to prepare the financial statements on a going concern basis.

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

- Selecting and then consistently applying suitable accounting policies;
- Making judgements and estimates that are reasonable and prudent;
- Acting in accordance with applicable accounting standards, and disclosing and explaining any material discrepancies in the financial statements; and
- Preparing the the financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Management Board of the Bank is responsible for maintaining proper accounting records, which disclose with reasonable accuracy the financial position of the Bank and the consolidated position of the Group at any time. The Management Board must also ensure that the financial statements are prepared in accordance with the Croatian Accounting Act. The Management Board has a responsibility for taking such steps as are reasonably available to it to prevent and detect fraud and other irregularities.

The Management Board is also responsible for the preparation and content of the Management Report of Condition, in accordance with the Croatian Accounting Act. The Management Report of Condition was authorised by the Management Board and is signed below to signify this.

11. 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.

Liana Keserić
Member of the Management Board

Daniel Mitteregger
Member of the Management Board

Marko Jurjević
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

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 report for acceptance, and then the Supervisory Board approves the submission of the annual report to General Meeting for acceptance.

The Management Board is also responsible for preparation and fair presentation of supplementary schedules 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 37 to 193 as well as supplementary schedules for the Croatian National Bank on pages 197 to 210 and reconciliation of the statutory financial statements with the supplementary schedules for the Croatian National Bank, set out on pages 211 to 212, were authorised by the Management Board on 01 April 2020 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 presented on pages 4 to 8 and Management Report of Condition presented on pages 9 to 23. Other information was approved by the Management Board on 18 April 2019 and signed below to signify this.

Signed on behalf of the Raiffeisenbank Austria d.d.

Liana Keserić
Member of the Management Board

Daniel Mitteregger
Member of the Management Board

Marko Jurjević
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, respectively, as at 31 December 2019, 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 2019 and of their respective unconsolidated and consolidated financial performance and 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 financial statements of the current period. These matters were addressed in the context of our audit of the 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 (separate and consolidated financial statements)

As at 31 December 2019, in the separate financial statements gross loans and advances to customers amount to HRK 19,514 million, related impairment allowance amounts to HRK 1,058 million and impairment loss recognised in profit or loss amounts to HRK 33 million (31 December 2018: gross loans and advances: HRK 17,253 million, impairment allowance: HRK 1,154 million, impairment loss recognised in profit or loss: HRK 198 million).

As at 31 December 2019, in the consolidated financial statements gross loans and advances to customers amount to HRK 20,958 million, impairment allowance amounts to HRK 1,091 million and impairment loss recognised in profit or loss amounts to HRK 30 million (31 December 2018: gross loans and advances: HRK 18,655 million, impairment allowance: HRK 1,192 million, impairment loss recognised in profit or loss: HRK 206 million).

Refer to pages 66 to 68 (Basis of preparation), pages 80 to 85 (Accounting policies), pages 80 to 85 (Significant accounting estimates and judgements), pages 100 to 102 (note 12 Loans and advances to customers), and pages 152 to 165 (credit risk section of the note 49 Financial risk management).

Key audit matter	How our audit addressed the matter
Impairment allowances represent the Management Board’s best estimate of the credit losses 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 the amounts of any such impairment. The Bank and the Group calculate provisions for credit losses in accordance with Croatian National Bank (the CNB) provisioning regulations, which partially incorporate the requirements of IFRS 9 Financial Instruments, whose impairment requirements are based on the expected credit loss (ECL) model (with dual-measurement 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).	Our audit procedures in this area included, among others: — Inspecting the ECL impairment provisioning methodology and assessing its compliance with the relevant requirements of the CNB provisioning regulations and the financial reporting framework; — Making relevant inquiries of the Bank’s and the Group’s risk management and information technology (IT) personnel to update an understanding of the provisioning process, IT applications used therein, as well as key data sources and assumptions in the ECL model. Also, 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)

Key audit matter	How our audit addressed the matter
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. 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-derived parameters is lower than the prescribed CNB minimum. For non-performing corporate exposures (Stage 3), the impairment assessment is based on the knowledge of each individual borrower and often on estimation of the fair value of the related collateral. 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 realization of collateral. Impairment allowance for performing and non-performing retail exposures (together “collective impairment allowance”) is 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.	— Testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans and advances, including those over the identification of loss events and default, appropriateness of classification of exposures into performing and non-performing and their segmentation into homogenous groups, calculation of days past due, collateral valuations and calculation of the impairment allowances; — Evaluating the overall modelling approach of calculation of ECLs, 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)); For collective impairment allowance: — Obtaining an understanding of the key internal rating models for loans to customers, and assessing the reasonableness of the underlying assumptions, and the adequacy of the data used by the management in the models; — Evaluating the forward-looking information and macroeconomic forecasts used in the ECL assessment by means of corroborating inquiries of the Management Board and through inspection of publicly available market information;

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)

Key audit matter	How our audit addressed the matter
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.	— Assisted by our own financial risk management specialist, challenging the BEEL, LGD and PD parameters applied in the ECL model, by performing back-testing, to the extent possible, of historical default, by reference to historical realized losses on defaults, and also by recalculating unsecured retail PD model results, and BEEL and LGD adjustments; — For a sample of exposures assessing the appropriateness of the staging. For impairment allowances calculated individually, for a risk-based sample of exposures: — 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 Stage 1 and Stage 2 exposures within the sample, critically assessing any evidence of credit-impairment, by reference to the underlying loan files and through inquiries of loan officers and credit risk management personnel, also considering business operations of the respective customers as well as market conditions and historical debt service; — For exposures with Stage 3 triggers identified, challenging key assumptions applied in the estimates of future cash flows used in the impairment calculation, such as discount rates, collateral values and realization period, and performing respective independent recalculations, where relevant.

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)

Key audit matter	How our audit addressed the matter
	Considering the adequacy of the ECLs recognized against the various minimum provisioning requirements of the CNB; Critically assessing the overall reasonableness of the impairment allowances, including both the share of the gross performing and non-performing exposure in total gross exposure and the performing and non-performing loans provision coverage; Evaluating the accuracy and completeness of the financial statement disclosures relating to expected credit losses against the requirements of the relevant financial reporting framework.

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)

Impairment of investments in subsidiaries (separate financial statements)

As at 31 December 2019, investments in subsidiaries in the separate financial statements amount to HRK 384 million (cost HRK 393 million and impairment allowance HRK 9 million) (31 December 2018: HRK 423 million; cost HRK 729 million and impairment allowance HRK 306 million); in 2019 there were no related impairment losses recognised in profit or loss (2018: HRK 38 million).

Refer to page 70 (Significant accounting policies), page 73 (Significant accounting estimates and judgements) and pages 105t to 107 (note 14 Investments in subsidiaries).

Key audit matter	How our audit addressed the matter
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.	Our audit procedures in this area included, among others: — Challenging the Bank's identification of impairment indicators, based on our own experience with the particular subsidiary and industry in which they operate, considering factors including 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 impairment testing methods applied against the requirements of the relevant financial reporting standards and current market practice; — Assisted by our own valuation specialists, challenging the key assumptions used in the Bank's estimates of recoverable amounts, such as: • growth rates - by reference to historical financial performance, assessed quality of budgeting process, past and expected future market developments;

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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)

Key audit matter	How our audit addressed the matter
	• discount rates - by assessing whether the cost of debt and cost of equity used are within the reasonable range, given the specific industry, country risk and financial position of the entity, and by making corroborating inquiries of the Bank's Management Board and its valuation officers; — Performing, where appropriate, alternative valuations to challenge the management valuations of individual subsidiaries and identify any indications of management bias; For the subsidiaries in the process of sale, making related inquiries of the Management Board and inspecting any offers received to evaluate whether any indications exist that the carrying amounts of the subsidiaries may be in excess of their recoverable amount; Assessing the accuracy and completeness of the Bank's disclosures related to the assumptions and significant judgements used in estimating recoverable amounts of investments in subsidiaries.

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)

Provision for court cases (separate and consolidated financial statements)

As at 31 December 2019, provisions related to court cases, within line item Provisions for liabilities and charges, in the separate financial statements amount to HRK 184 million (2018: HRK 61 million); related provisions recognised in profit and loss in 2019 amount to HRK 123 million (2018: HRK 2 million).

As at 31 December 2019, provisions related to court cases, within line item Provisions for liabilities and charges, in the consolidated financial statements amount to HRK 200 million (2018: HRK 75 million); related provisions recognised in profit and loss in 2019 amounts to HRK 125 million (2018: HRK 7 million).

Refer to page 74 (Significant accounting policies), pages 85 to 86 (Significant accounting estimates and judgements) and pages 125 to 127 (note 24 Provisions for liabilities and charges).

Key audit matter	How our audit addressed the matter
As part of its regular business activities, the Bank and the Group are exposed to various litigations, including those relating to CHF loans as discussed in Note 24. A provision is recognized in respect of those litigations when a present, legal or constructive, obligation exists as a result of past events and a reliable estimate of the obligation could be determined. Whether a liability or a contingent liability is recognized or disclosed in the financial statements is inherently uncertain and is dependent on a number of significant assumptions and judgments. Key judgements and estimates in the process are related to the existence of a present obligation, the probability of future payment and estimation of the amount of obligation. Additionally, for CHF lending-related court cases, key judgements relate to the expected developments of the court practice in Croatia, with respect to the treatment of CHF conversion conducted in 2013, and the applicably of statute of limitation.	Our audit procedures in this area included, among others: — Inspecting the Bank's and the Group's court cases provisioning methodology and assessing its compliance with the relevant requirements of the financial reporting framework and CNB provisioning regulations, including, but not limited to, the existence of the present obligation, probability of future payment and estimation of the amount of obligation; — Reading minutes of the meetings of the Management and Supervisory Board to support reasonableness of the major judgements and estimates made by management and identify additional potential obligations; — Critically assessing the Bank's and the Group's assumptions and estimates in respect of the claims, including the liabilities recognized or contingent liabilities disclosed in the financial statements. This involved assessing the probability of an unfavourable outcome of litigation and the reliability of estimates of related obligations, by inspecting supporting documentation, such as individual court case files, higher level courts decisions and opinions and analyses of the Bank's and the Group's in-house and externals lawyers, and making corroborating inquiries of the Management Board members about future development of claims;

KPMG

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)

Key audit matter	How our audit addressed the matter
The amounts involved are potentially significant and determining the amount, if any, to be recognized or disclosed in the financial statements, is inherently subjective. For the above reasons, provisioning for court cases is 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.	— Specifically, in respect of the CHF lending court cases, inspecting opinions and representations of external legal advisors and the developments of court practice in Croatia, in order to support reasonableness of the major judgements and estimates made by management in the provisioning process — Evaluating the accuracy and completeness of the related disclosures in accordance with relevant accounting framework.

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; respectively.

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.

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

Report on the Audit of the Financial Statements *(continued)*

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.

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.

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 (continued)

- 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 entities 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.

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.

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

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 (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 2019, and of the consolidated and separate statement of other comprehensive income, 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 197 to 210, and the Reconciliation is set out on pages 211 to 212. 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 37 to 193 on which we have expressed an opinion as set out above.

We were appointed by those charged with governance on 15 May 2019 to audit the financial statements of the Bank and the Group for the year ended 31 December 2019. Our total uninterrupted period of engagement is 5 years, covering the periods ending 31 December 2015 to 31 December 2019.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Bank dated 1 April 2020;
- we have not provided non-audit services, hence we have not provided 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;

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5

1 April 2020

Goran Horvat
President of the Management Board, Croatian Certified Auditor

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Consolidated statement of financial position

As at 31 December

Assets	Notes	Group 2019 HRK millions	Group 2018 HRK millions
Cash and current accounts with banks	8	5,125	5,306
Obligatory reserve with the Croatian National Bank	9	1,969	1,909
Financial assets at fair value through profit or loss	10	1,497	1,533
Placements with and loans to other banks	11	554	1,532
Loans from and advances to customers	12	19,867	17,463
Investment securities	13	6,101	5,830
Property, plant ,equipment and property investments	15a	985	987
Right of use assets	15b	37	-
Intangible assets	16	303	256
Deferred tax asset	17	104	99
Tax prepayment		57	22
Other assets	18	245	228
Total assets		**36,844**	**35,165**

The accounting policies and other notes on pages 51 to 193 form an integral part of these financial statements.

Consolidated statement of financial position (continued)

As at 31 December

Liabilities	Notes	Group 2019 HRK millions	Group 2018 HRK millions
Financial liabilities at fair value through profit or loss	19	81	40
Deposits from banks	20	1,171	589
Deposits from companies and other similar entities	21	11,018	11,384
Deposits from individuals	22	15,543	14,849
Borrowings	23	1,995	1,914
Provisions for liabilities and charges	24	335	185
Lease liabilities		37	-
Other liabilities	25	1,199	876
Subordinated liabilities	26	524	822
Total liabilities		**31,903**	**30,659**
Equity			
Share capital	36	3,621	3,621
Share premium		12	12
Additional TIER 1 capital	37	297	-
Capital reserve		1	1
Legal reserve		181	181
Fair value reserve		109	72
Retained earnings		720	619
Total equity attributable to owners of the parent		**4,941**	**4,506**
Total liabilities and equity		**36,844**	**35,165**

The accounting policies and other notes on pages 51 to 193 form an integral part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December

	Notes	Group 2019 HRK millions	Group 2018 HRK millions
Interest income calculated using the effective interest method	27	925	957
Other interest income	27	97	81
Interest expense	28	(124)	(165)
Net interest income		**898**	**873**
Fee and commission income	29	958	853
Fee and commission expense	30	(457)	(390)
Net fee and commission income		**501**	**463**
Net gain / (loss) from financial instruments at fair value	31	26	29
Net gain on trading and foreign exchange differences from translation of monetary assets and liabilities	31	140	118
Gains or (losses) from hedge accounting, net	31	(3)	-
Other operating income	32	493	321
Trading and other income		**656**	**468**
Operating income		**2,055**	**1,804**
Operating expenses	33	(1,445)	(1,233)
Impairment losses	34	(26)	(221)
Provisions for liabilities and charges	24	(150)	(22)
Profit before tax		**434**	**328**
Income tax expense	35	(13)	(45)
Profit for the year		**421**	**283**

The accounting policies and other notes on pages 51 to 193 form an integral part of these financial statements.

Consolidated statement of comprehensive income (continued)

For the year ended 31 December

	Notes	Group 2019 HRK millions	Group 2018 HRK millions
Profit for the year		**421**	**283**
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		*17*	*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		*20*	*(17)*
Other comprehensive gain / (loss) for the year, net of tax		**37**	**(15)**
Total comprehensive income for the year		**458**	**268**
Attributable to:			
- Owners of the parent		421	283
Earnings per share attributable to the equity holders of the parent	41	**116.24**	**77.99**

The accounting policies and other notes on pages 51 to 193 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

	Share capital	Share premium	Additional TIER 1 capital	Capital reserves	Legal reserve	Fair value reserve	Retained earnings	Total attributable to equity holders of the parent
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
At 1 January 2018	**3,621**	**12**	**-**	**1**	**181**	**87**	**732**	**4,634**
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	283	283
Other comprehensive income								
Change in fair value of equity financial assets at fair value through other comprehensive income, net of tax and realised amounts	-	-	-	-	-	2	-	2
Change in fair value of debt financial assets at fair value through other comprehensive income, net of tax and realised amounts	-	-	-	-	-	(17)	-	(17)
Total comprehensive income	-	-	-	-	-	(15)	283	268
Transactions with equity holders								
Dividend payed	-	-	-	-	-	-	(396)	(396)
Total transactions with equity holders	-	-	-	-	-	-	(396)	(396)
At 1 January 2019	**3,621**	**12**	**-**	**1**	**181**	**72**	**619**	**4,506**
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	421	421
Other comprehensive income								
Change in fair value of equity financial assets at fair value through other comprehensive income, net of tax and realised amounts	-	-	-	-	-	17	-	17
Change in fair value of debt financial assets at fair value through other comprehensive income, net of tax and realised amounts	-	-	-	-	-	20	-	20
Total comprehensive income	-	-	-	-	-	37	421	458
Merger of subsidiary	-	-	-	-	-	-	11	11
Other changes	-	-	-	-	-	-	23	23
Transactions with equity holders								
Dividend payed	-	-	-	-	-	-	(354)	(354)
Issuance of other equity instruments	-	-	297	-	-	-	-	297
Total transactions with equity holders	-	-	297	-	-	-	(354))	57
At 31 December 2019	**3,621**	**12**	**297**	**1**	**181**	**109**	**720**	**4,941**

The accounting policies and other notes on pages 51 to 193 form an integral part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 December

	Notes	Group 2019 HRK millions	Group 2018 HRK millions
Cash flows from operating activities			
Profit before tax		434	328
Adjustments for:			
- Amortization and depreciation	33	139	134
- Foreign exchange differences	31	8	6
- Realised gains on financial assets at fair value through profit or loss	31	(6)	(7)
- Impairment losses (excluding cash and cash equivalents) and provisions for liabilities and charges	24,34	179	239
- Loss / (Gain) on sale of assets under operating lease	33	2	(13)
- Net interest income	27,28	(898)	(873)
Changes in operating assets and liabilities			
Net decrease / (increase) in financial assets at fair value through profit or loss		83	(573)
Net (increase) / decrease in placements with banks, with original maturity more than three months		(9)	68
Net increase in obligatory reserve with the Croatian National Bank		(61)	(167)
Net increase in loans from and advances to customers		(2,436)	(100)
Net (increase) / decrease in other assets		(22)	56
Net decrease / (increase) in financial liabilities through profit or loss		42	(19)
Net increase / (decrease) in deposits from banks		573	(467)
Net (decrease) / increase in deposits from companies and other similar entities		(389)	1,856
Net increase in deposits from individuals		605	691
Net increase / (decrease) in other liabilities		313	(76)
Interest received (excluding investment securities)		966	999
Interest paid		(127)	(204)
Net cash from operating activities before tax		***(604)***	***1,878***
Income tax paid		(56)	(145)
Net cash from operating activities		***(660)***	***1,733***

Consolidated statement of cash flows (continued)

For the year ended 31 December

	Notes	Group 2019 HRK millions	Group 2018 HRK millions
Cash flows from investing activities			
Interest received from investment securities		122	66
Net purchase /(sale) of investment securities		(263)	344
Purchase of property, plant and equipment and intangible assets		(229)	(151)
Proceeds from disposal of property, plant and equipment and intangible assets		81	335
Net cash from investing activities		***(289)***	***594***
Cash flows from financing activities			
Receipts from borrowings	23	11,872	8,680
Repayment of borrowings	23	(11,788)	(9,305)
Repayment of subordinated liabilities		(295)	-
Receipts from issuance of other equity instruments		297	-
Dividend paid	39	(354)	(396)
Net cash from financing activities		**(268)**	**(1,021)**
Effects of foreign exchange differences on cash and cash equivalents		34	3
Net increase in cash and cash equivalents		**(1,183)**	**1,309**
Cash and cash equivalents at the beginning of the year		**6,838**	**5,529**
Cash and cash equivalents at the end of the year	42	**5,655**	**6,838**

The accounting policies and other notes on pages 51 to 193 form an integral part of these financial statements.

Separate statement of financial position

As at 31 December

Assets	Notes	Bank 2019 HRK millions	Bank 2018 HRK millions
Cash and current accounts with banks	8	5,109	5,298
Obligatory reserve with the Croatian National Bank	9	1,969	1,909
Financial assets at fair value through profit or loss	10	682	1,019
Placements with and loans to other banks	11	541	1,543
Loans and advances to customers	12	18,456	16,099
Investment securities	13	5,659	5,309
Investments in subsidiaries	14	384	423
Property, plant and equipment and property investments	15a	501	507
Right of use assets	15b	182	-
Intangible assets	16	268	221
Deferred tax asset	17	97	95
Tax prepayment		51	29
Other assets	18	177	177
Total assets		**34,076**	**32,629**

The accounting policies and other notes on pages 51 to 193 form an integral part of these financial statements.

Separate statement of financial position (continued)

As at 31 December

Liabilities	Notes	Bank 2019 HRK millions	Bank 2018 HRK millions
Financial liabilities at fair value through profit or loss	19	80	40
Deposits from banks	20	1,303	673
Deposits from companies and other similar entities	21	11,170	11,597
Deposits from individuals	22	14,458	13,783
Borrowings	23	1,058	1,004
Provisions for liabilities and charges	24	296	169
Lease liabilities		182	-
Other liabilities	25	331	315
Subordinated liabilities	26	524	822
Total liabilities		**29,402**	**28,403**
Equity			
Share capital	36	3,621	3,621
Additional TIER 1 capital	37	297	-
Share premium		12	12
Capital reserve		1	1
Legal reserve		173	173
Fair value reserve		103	64
Retained earnings		467	355
Total equity		**4,674**	**4,226**
Total liabilities and equity		**34,076**	**32,629**

The accounting policies and other notes on pages 51 to 193 form an integral part of these financial statements.

Separate statement of comprehensive income

For the year ended 31 December

	Notes	Bank 2019 HRK millions	Bank 2018 HRK millions
Interest income calculated using the effective interest method	27	843	869
Other interest income	27	78	65
Interest expense	28	(93)	(124)
Net interest income		**828**	**810**
Fee and commission income	29	795	685
Fee and commission expense	30	(454)	(386)
Net fee and commission income		**341**	**299**
Net gain / (loss) from financial instruments at fair value	31	13	37
Net gain on trading and foreign exchange differences from translation of monetary assets and liabilities	31	139	110
Gains or (losses) from hedge accounting, net	31	(3)	-
Other operating income	32	112	97
Trading and other income		**261**	**244**
Operating income		**1,430**	**1,353**
Operating expenses	33	(840)	(884)
Increase of impairment losses	34	(27)	(213)
Provisions for liabilities and charges	24	(127)	(17)
Profit before tax		**436**	**239**
Income tax expense	35	2	(20)
Profit for the year		**438**	**219**

The accounting policies and other notes on pages 51 to 193 form an integral part of these financial statements.

Separate statement of total comprehensive income (continued)

For the year ended 31 December

	Notes	Bank 2019 HRK millions	Bank 2018 HRK millions
Profit for the year		**438**	**219**
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		*17*	*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		*22*	*(15)*
Other comprehensive loss for the year, net of tax		**39**	**(13)**
Total comprehensive income for the year		**477**	**206**
Earnings per share attributable to the equity holders of the parent	41	**121.02**	**60.34**

The accounting policies and other notes on pages 51 to 193 form an integral part of these financial statements.

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

For the year ended 31 December

	Share capital	Share premium	Additional TIER 1 capital	Capital reserves	Legal reserve	Fair value reserve	Retained earnings	Total attributable to equity holders of the parent
	HRK millons	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
At 1 January 2018	**3,621**	**12**	**-**	**1**	**173**	**77**	**532**	**4,416**
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	219	219
Other comprehensive income								
Change in fair value of equity financial assets at fair value through other comprehensive income, net of tax and realised amounts	-	-	-	-	-	2	-	2
Change in fair value of debt financial assets at fair value through other comprehensive income, net of tax and realised amounts	-	-	-	-	-	(15)	-	(15)
Total comprehensive income	-	-	-	-	-	(13)	219	206
Transactions with equity holders								
Dividend payed	-	-	-	-	-	-	(396)	(396)
Total transactions with equity holders	-	-	-	-	-	-	(396)	(396
At 31 December 2018	**3,621**	**12**	**-**	**1**	**173**	**64**	**355**	**4,226**
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	438	438
Other comprehensive income								
Change in fair value of equity financial assets at fair value through other comprehensive income, net of tax and realised amounts	-	-	-	-	-	17	-	17
Change in fair value of debt financial assets at fair value through other comprehensive income, net of tax and realised amounts	-	-	-	-	-	22	-	22
Total comprehensive income	-	-	-	-	-	39	438	477
Merger of subsidiary	-	-	-	-	-	-	24	24
Other changes	-	-	-	-	-	-	4	4
Transactions with equity holders								
Dividend payed	-	-	-	-	-	-	(354)	(354)
Issuance of other equity instruments	-	-	297	-	-	-	-	297
Total transactions with equity holders	-	-	297	-	-	-	(354)	57
At 31 December 2019	**3,621**	**12**	**297**	**1**	**173**	**103**	**467**	**4,674**

The accounting policies and other notes on pages 51 to 193 form an integral part of these financial statements.

Separate statement of cash flows

For the year ended 31 December

	Notes	Bank 2019 HRK millions	Bank 2018 HRK millions
Cash flows from operating activities			
Profit before tax		436	239
Adjustments for:			
- Amortization and depreciation	33	106	81
- Foreign exchange differences	31	11	14
- Impairment losses (excluding cash and cash equivalents) and provisions for liabilities and charges	24,34	157	227
- Realised gains on financial assets at fair value through profit or loss	31	(6)	(7)
- Impairment loss on investment in subsidiaries		-	39
- Net interest income	27,28	(828)	(810)
- Dividend income from subsidiaries	32	(85)	(79)
Changes in operating assets and liabilities			
Net decrease / (increase) in financial assets at fair value through profit or loss		393	(432)
Net decrease in placements with banks, with original maturity more than three months		51	44
Net increase in obligatory reserve with the Croatian National Bank		(61)	(167)
Net increase in loans from and advances to customers		(2,407)	(10)
Net decrease in other assets		1	25
Net decrease / (increase) in financial liabilities at fair value through profit or loss		40	(21)
Net increase / (decrease) in deposits from banks		622	(420)
Net (decrease) / increase in deposits from companies and other similar entities		(450)	1,801
Net increase in deposits from individuals		591	642
Net increase / (decrease) in other liabilities		13	(123)
Interest received (excluding investment securities)		908	911
Interests paid		(97)	(137)
Net cash from operating activities before tax		***(605)***	***1,817***

Separate statement of cash flows (continued)

For the year ended 31 December

	Notes	Bank 2019 HRK millions	Bank 2018 HRK millions
Income tax paid		(28)	(135)
Net cash from operating activities		***(633)***	***1,682***
Cash flows from investing activities			
Interest received from investment securities		97	41
Additional investment in subsidiaries		-	(67)
Net inflow / (outflow) from disposal / (purchase) of investment securities		(348)	268
Dividend received from subsidiaries	32	85	79
Purchase of property, plant and equipment and intangible assets		(142)	(113)
Net cash and cash equivalents from merger of subsidiary		8	-
Net cash from investing activities		***(300)***	***208***
Cash flows from financing activities			
Receipts from borrowings	23	11,405	8,217
Repayment of borrowings	23	(11,344)	(8,437)
Repayment of subordinated liability		(295)	-
Receipt of additional TIER 1 capital	37	297	-
Dividend paid	38	(354)	(396)
Net cash from financing activities		***(291)***	***(616)***
Effects of foreign exchange differences on cash and cash equivalents		33	3
Net increase in cash and cash equivalents		**(1,191)**	**1,277**
Cash and cash equivalents at the beginning of the year		**6,805**	**5,528**
Cash and cash equivalents at the end of the year	42	**5,614**	**6,805**

The accounting policies and other notes on pages 51 to 193 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 the Republic of Croatia. The Bank is the parent of the Raiffeisenbank Austria Group ("the Group"). These financial statements comprise the financial statements of the Bank and of the Group as defined in International Accounting Standard 27: "Separate Financial Statements" and in International Financial Reporting Standard 10: "Consolidated Financial Statements".

Composition of the Group (Note 14):

Raiffeisenbank Austria d.d.
Raiffeisen stambena štedionica 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 usluge d.o.o. (until 1. November 2019.)
Raiffeisen Invest d.o.o.
Raiffeisen Bonus d.o.o.

These financial statements were authorised for issue by the Management Board on 1 April 2020 for approval by 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 2019.

2. Basis of preparation

a) Statement of compliance

The financial statements have been prepared in accordance with statutory accounting requirements for banks in the 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 the Republic Croatia. These financial statements have been prepared in accordance with these banking regulations. Loan loss provisions for 2019 have been calculated in accordance with the Decision on the Classification of Exposures into Risk Categories and the Method of Determining Credit Losses, without restatement of comparative information, which entered into force on 1 January 2018.

Loan loss provisions have been calculated in accordance with the CNB's Decision on the Classification of Exposures into Risk Categories and the Method of Determining Credit Losses, which entered into force on 1 January 2018, and which partially adopted the requirements of IFRS 9 Financial Instruments.

The main differences between the accounting regulations of the CNB (primarily the requirements of the Decision on the Classification of Exposures to Risk Categories 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:

2. Basis of preparation (continued)

a) Statement of compliance (continued)

- CNB requires credit institutions 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 carrying amount of exposures 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 376 million or HRK 386 million, are recorded in the statement of financial position of the Bank and the Group (2018: HRK 321 million and HRK 336 million kuna of the Bank and the Group respectively). HRK 72 million in off-balance sheet exposures were recorded for the Bank and HRK 72 million for the Group (2018: HRK 72 million for the Bank and HRK 72 million for the Group respectively) in accordance with CNB requirements. The corresponding loss in profit and loss of the Bank and the Group was HRK 54 million and HRK 50 million, respectively for on balance sheet exposures (2018: profit of HRK 30 million and HRK 30 million for the Bank and the Group respectively). There were no significant changes in off-balance sheet exposures compared to the previous year and accordingly no visible effect in profit or loss (2018: loss in profit and loss of HRK 5 million and HRK 5 million on off-balance sheet exposures for the Bank and the Group respectively).
- The CNB prescribes minimum levels of impairment losses against certain non-performing exposures for which individual impairment has been recognised, regardless of the net present value of expected future cash flows, so that the impairment so calculated may be different from the impairment loss required to be recognised in accordance with the IFRS requirements
- Further, the CNB also prescribes minimal haircuts and minimum collection periods for certain impaired exposures where future cash flows are collections from adequate collaterals, and therefore the calculated impairment may be different.
- The Group recognises provisions for court cases by incorporating the probability of loss into measurement of the provision (i.e. if the probability of loss is estimated to be 10%, the provision will be calculated as 10% of the potential loss), which is contrary to IFRS, which require the full amount of potential loss to be recognised where it is probable that the court case will be lost.

b) Measurement

The financial statements are prepared on the 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 as at the date on which 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 acquisition date. 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 to 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.

Notes to the financial statements (continued)

2. Basis of preparation (continued)

c) Basis of consolidation

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 the Bank's separate financial statements, investments in subsidiaries are accounted for at cost less any impairment.

Associates

Associates are entities over which the Group has significant influence but no control. Investments in associates are initially recognised at cost and subsequently accounted for using the equity method in the consolidated financial statements. The Group’s investments in associates also 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.

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 stops recognising further losses, unless it has incurred obligations or made payments to the associate.

Dividends received from associates are recognised as reduction in investment in the associates 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 are changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests

Non-controlling interests are measured at their pro-rata 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

Upon the loss of control of the subsidiary, the Group derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity related to the subsidiary. 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.

2. Basis of preparation (continued)

c) Basis of consolidation

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 at the acquisition date. The acquired assets and liabilities are recognised at the carrying amounts recognised previously in the financial statements of the acquired company. Portions of the capital of the acquired companies are added to the respective positions within equity except 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 presented at the acquisition date.

d) Functional and presentation currency

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

The effective exchange rates as at 31 December 2019 were: EUR 1 = HRK 7.442580 (2018: EUR 1 = HRK 7.417575), USD 1 = HRK 6.649911 (2018: USD 1 = HRK 6.469192) and CHF 1 = HRK 6.838721 (2018 CHF 1 = HRK 6.588129).

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 the reported amounts of assets and liabilities, and disclosure of commitments and contingencies at the reporting date, 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. The effects of 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 future periods 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

Developments in external financial markets have a significant impact on the operating conditions of credit institutions in Croatia. Due to a high degree of euroization of the financial system, developments in the euro area have the greatest impact on the local financial market. The European Central Bank (ECB) runs the monetary policy in the euro area. The ECB's policy is aimed at achieving the 2 percent annual price growth target. In times of reduced inflationary pressures, the ECB implements a set of expansionary conventional and unconventional monetary policy measures.

In 2019 the ECB base interest rate was 0 percent, while the interest rate on deposits held by banks in the euro area with the ECB until September was -0.4 percent. Since September, the interest rate on deposits fell to -0.5 percent, with the announcement that key ECB interest rates would be kept at their present or lower level until the inflation converges to the target level of 2 percent. Financial market participants do not expect a change in policy or an increase in key ECB interest rates in the upcoming year.

2. Basis of preparation (continued)

f) Global financial market situation and the impact on Croatia

The consequence of strengthening the expansiveness of ECB policy is the fall in market interest rates. Market interest rates in the euro area were negative during 2019 as were the yields on bonds of prime issuers in the euro area. Positive yields were only earned on issues with maturities over 10 years. This way, the expansionary monetary policy, through negative market interest rates in the euro area, resulted in declining yields on financial assets.

The excess liquidity in the market contributed to the supply of loans in the euro area at historically low interest rates. However, demand for loans in the euro area remained moderate, with consequent absence of upward pressure on prices, as well as incentives for growth in production output and GDP. Banks deposited excess liquidity in their accounts with the ECB in the first three quarters, with negative interest rate of -0.4 percent, which was reduced to -0.5 percent in the last quarter. As an alternative, the excess liquidity was used to buy bonds of prime issuers with negative returns. Banks and other euro area investors looking for positive yields have increased demand for higher risk debt instruments. The offering of bonds of higher risk issuers was insufficient to absorb the growing supply of capital from the euro area, and consequently the yields on such issues declined during the year. Croatian bond issues in 2019 were recorded at historically lowest yields. Factors which contributed to it, in addition to the excess supply of capital in the financial markets, were the fiscal consolidation and the restoration of Croatia's credit rating to the investment grade.

The Croatian financial market is characterized by a constant surplus of liquidity. Interest rates offered on term deposits came close to zero thus converging to yields on demand deposits. An increasing number of clients do not rollover their contracts on maturity. As a result, the level of demand deposits is growing. This aligns the currency structure of the loan with the sources of funding, but opens a maturity gap in bank balance sheets. The supply of loans on the Croatian market exceeded the demand, so interest rates on newly originated loans declined. The increased pressure on banks' interest margins in the past year did not have a negative impact on operating results due to improved collection of debt, and consequently a reduction in credit risk and loss provisions of banks.

Since the beginning of the year, the economic outlook has been changing at an accelerated pace. The first cases of Covid-19 infection occurred in Europe in February. In order to control the pandemic, the governments of the affected countries have imposed far-reaching economic constraints across Europe, and there are chances that even more restrictive measures may be introduced. Some sectors of the economy have been stalled and a recession in the euro area looks unavoidable.

The focus is evidently on curbing the pandemics, seemingly regardless of the resulting short-term economic costs and production losses. On the other hand, all countries affected by the outbreak which have imposed restrictions on economic activity also provide support measures for affected segments of society, in order to preserve employment levels and enable a faster recovery of the economy once the restrictions on movement are lifted.

In the euro area, we expect the sharpest decline in GDP in the second quarter of 2020. On the supply side, if the constraints on economic activity can be reduced sustainably within a three-month timeframe, a significant economic recovery is likely in the second half of 2020, and especially in the last quarter of the year. The recovery will be facilitated by generous government support on the demand side.

Notes to the financial statements (continued)

2. Basis of preparation (continued)

f) Global financial market situation and the impact on Croatia (continued)

Due to high dependence on tourism, the Croatian economy will suffer a significant decline in economic activity this year. Private accommodation is predominant in the structure of tourism capacity, so decreased revenues in tourism-oriented activities will have a direct impact on lower disposable income, consumer optimism and lower household consumption. In the services sector, revenues of carriers and all businesses that rely on tourism - accommodation, food and drink, recreation and entertainment, travel services - are at risk. In the manufacturing sector, the chemical, paper, textile and wood industries are likely to be hit by a lack of supply and demand.

Owing to high seasonality of tourism and weak industry, Croatia's recovery is expected to lag behind the euro area average. In 2020, Croatia is expected to face a GDP decline of around 5 percent over the previous year. The prognosis is exposed to the adverse risks that depend on the strength and duration of the COVID-19 virus epidemic. Negative effects on the economy may be mitigated by the government 's economic support package, monetary policy measures aimed at maintaining the stability of the HRK / EUR exchange rate, the demand for Croatian bonds and relaxation of credit policies of commercial banks.

On 17.03.2020 the Government of the Republic of Croatia adopted the decision to implement the first phase of measures to support economy in the wake of the coronavirus outbreak. Out of 63 measures adopted, commercial banks have a duty to implement three measures previously agreed upon by the representatives of banks („HUB“ - Croatian Banking Association), the banking sector regulator („CNB“ - Croatian National Bank) and the involved government departments (Ministry of Finance, „HBOR“ - Croatian Bank for Reconstruction and Development, „HAMAG“ - Croatian Agency for SMEs). The measures include postponement of debt enforcement measures in corporate and retail sector in the second quarter of the year, and, provisions of government guarantees for businesses to help them reschedule payments to banks and access new cash flow loans during the foreseeable period of economic activity restrictions.

As part of the job retention scheme, the Government will apply budget funds to finance net minimum wages for businesses hit by the crisis. This measure is estimated to cover around 400,000 jobs over three months with a possible extension period. The estimated cost is around HRK 4 billion (1 percent of GDP). Income tax, corporate income tax and social security deferrals over three months, with a possible extension for another three months, would have an additional effect of HRK 9-12 billion (2.3 - 3.0 percent of GDP). In addition to these assistance measures, the Government will make it easier for entrepreneurs to access EU funds, increase state guarantees for exporters, and postpone payments of numerous parafiscal taxes.

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 on or after 1 January 2019. The Group believes that other new standards and amendments to standards will not significantly affect consolidated and separate financial statements in the period of the first time adoption.

3. Changes in accounting policies

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases and related interpretations and has been effective as of 1 January 2019. The Standard eliminates the current dual accounting model for lessees and instead requires companies to present 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 in the statement of financial position. 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 that the Group decided to apply for leases, including:

- leases with a lease term of 12 months or less, with no purchase option, and
- leases of low-value assets.

Lessor accounting remains substantially unchanged and the distinction between operating and finance leases will be retained.

Previously, the Group recognised operating lease payments as expenses on a straight-line basis over the lease term, 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 liabilities.

The Group applies the practical expedient to grandfather the definition of lease on transition to a new standard. 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.

The Group applied IFRS 16 using a modified retrospective approach, which recognizes the cumulative effect of initial application in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated - i.e. it is presented in accordance with IAS 17 and related interpretations. At initial recognition at 1 January 2019, the amount of the right-of-use assets is equal to the amount of the lease obligation, so there was no one-off effect on the initial balance of retained earnings.

IFRS 16 includes the right-of-use assets category of assets and lease liabilities category for liabilities.
The effect of adopting the standard is presented in Note 15b.

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

4. Significant accounting policies

Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument to:

- the gross carrying amount of a financial asset; or
- the amortised cost of a 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 the expected credit loss (ECL). For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit loss.

The calculation of effective interest rate includes transaction costs and fees and percentage 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 rate method of any difference between that initial amount and the value at maturity, and, for financial assets, adjusted for any expected credit loss allowance.

The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjustment 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 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 profit or loss and other comprehensive income includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at fair value through other comprehensive income (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 profit or loss and other comprehensive income includes interest expenses on financial liabilities measured at amortised cost.

Interest income and expense on other financial assets and financial liabilities at fair value through profit or loss (FVTPL) are presented in net income from other financial instruments at fair value through profit or loss.

4. Significant accounting policies

Fee and commission income and expense

Fee and commission income and expense arise from financial services provided by or to the Group, and mainly comprise 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 and investment management and custody services. Fee and commission income and expense are recognised in profit or loss upon performance of the related service.

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.

Dividend income

Dividend income from equity securities or in the case of separate financial statements of the parent company, investments in associates are recognized in profit and loss when the right to receive the dividend is established.

Gains less losses from trading and investment financial instruments

Gains less losses from trading securities include unrealised and realised gains and losses from derivative financial instruments, trading debt securities and other financial instruments initially designated at fair value through profit or loss and non-trading securities, which must be measured at fair value through profit or loss.

Gains less losses from investment securities comprise realised gains and losses from financial assets at fair value through other comprehensive income.

Gains less losses from foreign exchange trading

Gains less losses from foreign exchange trading include unrealized and realized gains and losses from foreign exchange spot transactions.

Foreign currency translation

Transactions in foreign currencies are translated into the functional currency at the spot exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are at the reporting date translated into the functional currency at the spot exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the initial 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 fair value through other comprehensive income (FVOCI), which are recognised in other comprehensive income (refer below).

4. Significant accounting policies (continued)

Foreign currency translation (continued)

Changes in the fair value of monetary (debt) securities denominated in or linked to foreign currency classified as FVOCI 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 through profit or loss as foreign exchange gains or losses on the revaluation of monetary assets and liabilities and presented in investment income or expense. Other changes in the carrying amounts are recognised in other comprehensive income. The translation differences on revaluation of non-monetary financial assets (equity securities) denominated in or linked to foreign currency classified at FVOCI are recognised in other comprehensive income, along with other changes in their fair value.

Financial instruments: classification

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss (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 solely payments of principal and interest (SPPI).

A debt instrument is measured at fair value through other comprehensive income (FVOCI) only if it meets both of the following conditions and is not designated at fair value through profit or loss (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 solely payments of principal and interest (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 other comprehensive income. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at fair value through profit or loss (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.

Business model assessment

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 past 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 fair value through profit or loss (FVTPL) because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

4. Significant accounting policies (continued)

Financial instruments: classification (continued)

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 may change the timing or amount of contractual cash flows such that this condition may not be fulfilled.

The Group considers:

- contingent events that may 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 which mandatorily measured at FVTPL or designated as at FVTPL; they 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' in the statement of financial position include:

- 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 rate 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.

4. Significant accounting policies (continued)

Financial instruments: classification (continued)

For debt securities measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following items, which are recognised in profit or loss the same way as financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt instrument measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

The Group elects to present in other comprehensive income 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 other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

Financial instruments: reclassification

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

Financial instruments: recognition and de-recognition

Regular way purchases and sales of financial assets and financial liabilities at fair value through profit or loss, and financial assets at fair value through other comprehensive income, 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 in part) when the rights to receive cash flows from the financial instrument have expired or when it has not retained control of 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 retained interest in transferred financial asset, which qualifies 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 undertaken) 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.

4. Significant accounting policies (continued)

Financial instruments: recognition and de-recognition (continued)

Any cumulative gain/loss recognised in other comprehensive income 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 asset which qualifies 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 of the transferred asset, the asset is not derecognised and the financial liability secured with collateral is recognised in the amount of consideration received.

The Group derecognises a financial liability only when its contractual obligations are discharged, 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, for the 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 financial asset or financial liability. Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are immediately expensed in profit or loss.

On initial recognition, the Group measures financial instruments at fair value through profit or loss and financial assets 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 rate method, less any 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, and all realized gains and losses on sale or derecognition of such assets and liabilities are recognized in profit or loss.

Gains or losses from a change in the fair value of monetary assets at fair value through other comprehensive income are recognised directly in a fair value reserve in capital and reserves 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 at fair value through other comprehensive income 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 derecognition of assets at at fair value through other comprehensive income, any cumulative gains or losses on the instrument are transferred to profit or loss.

4. Significant accounting policies (continued)

Financial instruments: gains and losses (continued)

Gains or losses on 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 on derecognition of a financial instrument or for impaired assets.

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 offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions, such as in the Group's trading activity.

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 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 a market for a financial instruments is not active, or, for any other reason, fair value cannot be reliably measured by market price, then the Group establishes fair value using internal evaluation techniques and models as described in Note 50. Such models include the use of prices achieved in recent transactions, reference to similar financial instruments, and discounted cash flow analysis, maximising the 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 performs validity tests 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.

The fair value of non-exchange-traded derivatives is estimated at an 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.

The amortised cost of a financial assets or liability is the amount at which that financial asset or liability is measured at initial recognition, minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that amount initially recognised and the amount at maturity, and, for financial assets, adjusted for any loss allowance.

4. Significant accounting policies (continued)

Modifications of financial assets and liabilities

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 receive cash flows from the original financial asset 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 consideration received as part of the modification is accounted for as follows:

- consideration which is taken into account in determining the fair value of the new asset and consideration which represents reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other considerations 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 consideration paid and considerations 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 considerations 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.

4. Significant accounting policies (continued)

Impairment of financial assets

The Group measures expected losses in accordance with the Decision on the Classification of Exposures and the Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses.

The Group recognises loss allowance for expected credit losses (ECL) on the following financial instruments that are not measured at fair value through profit or loss:

- 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 fair value through profit or loss.

The Group measures loss allowance at an amount equal to lifetime expected credit losses, except for the following items, for which loss allowance is equal to 12-month expected credit losses:

- debt investment securities for which low credit risk is determined at the reporting date; and
- other financial instruments (other than lease receivables) for which credit risk has not increased significantly since initial recognition.

Loss allowances measured for leases receivable are always equal to lifetime expected credit losses.

12-month expected credit loss is the portion of the expected credit losses that results from default events on a financial instrument possible within the next 12 months after the reporting date. Financial instruments for which a 12-month expected credit loss is recognised are referred to as ‘Stage 1 financial instruments’.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime expected credit loss is recognised, but are not credit-impaired are referred to as ‘Stage 2 financial instruments’.

Asset value is 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 percent in accordance with the requirements of the Decision on the classification of exposures,
- Expected credit losses on Stage 3 assets are also measured taking into account the minimum requirements of the Decision on the classification of exposures.

Impairment of financial assets (continued)

Measurement of expected credit losses

The measured expected credit losses reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.
The measurement of the expected credit loss is an area that requires the use of complex models for assessment of credit behaviour of customers in the performance of obligations to the Group and the use of significant assumptions about future economic conditions.

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 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.

Indicators that a financial asset is credit-impaired includes the observable dana about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract, such as a default or past due event;
- the Group has granted restructuring of a loan or advance on terms which the Group would not otherwise been consider;
- it is becoming probable that the borrower will enter bankruptcy or other 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 impairment allowance for expected credit losses 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;
- undrawn loans 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.

4. Significant accounting policies (continued)

Impairment of financial assets (continued)

- 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 recognised in the fair value reserve.

POCI assets - purchased or originated credit-impaired assets

Purchased or originated credit-impaired financial asset is an asset where there is objective evidence of impairment (default) at initial recognition.
Such assets are identified in the following cases:

- bank repurchases at a significant discount an asset for which there is objective evidence of impairment, or
- there is a significant modification of the instrument which is already in default, or
- the significant modification of the instrument is a reason for default, or
- bank grants a new loan to a customer whose significant portion of the portfolio is already in default

The Bank does not purchase any impaired assets (bad debts), therefore POCI assets are instruments that are initially recognised, or, subsequently recognised due to a significant modification, which were in default at recognition.

Write-offs

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 may still be subject to collection activities in accordance with the Group's procedures for recovery of amounts due.

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

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.

Separate 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. Separate embedded derivatives are presented in the statement of financial position together with the host contract.

4. Significant accounting policies (continued)

Specific financial instruments (continued)

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 remeasured 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.

Derivative financial instruments (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 sections below.

Fair value hedge

Fair value hedges are hedges of the 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. From that date 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 unamortised fair value is recognized immediately in profit and loss.
The Group applies fair value hedge of interest rate risk of lending items on an individual basis 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 are classified as trading financial instruments, initially recognised 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 at fair value through other comprehensive income.

4. Significant accounting policies (continued)

Specific financial instruments (continued)

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 at fair value through other comprehensive income.

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 at amortised cost net of impairment losses.
In accordance with CNB requirements, the amortisation of any discounts within impairment losses is included in impairment losses.

g) Investments in subsidiaries

In the Bank's separate financial statements investments in subsidiaries are accounted for at cost less any impairment. Investments in subsidiaries are fully consolidated in the consolidated financial statements of the Group.

h) Borrowings and subordinated liabilities

Interest-bearing borrowings and subordinated liabilities are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings and subordinated liabilities 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 and subordinated liabilities on an effective interest basis.

i) Sale and Repurchase 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 as loans and advances to either banks or customers. The receivables are presented 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 repurchased 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.

4. Significant accounting policies (continued)

Specific financial instruments (continued)

k) Additional Tier 1 capital

The Bank has issued Additional Tier 1 instrument that meets the conditions established in accordance with Article 52 of Regulation No. 575/2013. Based on the characteristics and general conditions, the Additional Tier 1 instrument is classified as an equity instrument in accordance with IAS 32 Financial Instruments: Presentation.

Additional Tier 1 capital is stated at the nominal value in HRK at the payment date.

Consideration paid to holders of the Additional Tier 1 instrument will be recognised directly in equity and presented in the statement of changes in equity. The payment will be recorded within retained earnings and will not be included in Common Equity Tier 1 capital. The Bank may, at its discretion, at any time cancel payments under the Additional Tier 1 instrument, and an unconditional obligation arises on payment under the Additional Tier 1 instrument (when the right to cancel the payment is not exercised).
The Additional Tier 1 instrument is defined as a non-monetary item.
Consideration paid on the redemption (maturity) of the Additional Tier 1 instrument and on the basis of regular payments of a share of the profit are monetary items.

Income tax

The income tax 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 statement of financial position 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 the carrying amounts of assets and liabilities are expected to be recovered or settled based on tax rates enacted or substantially enacted at the reporting date.

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 the reporting date, 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 only to the extent that it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each reporting date, the Group reassesses unrecognised potential deferred tax assets and the recoverability of 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.

Notes to the financial statements (continued)

4. Significant accounting policies (continued)

Property, plant and equipment

Items of property, plant and equipment are stated at historical cost or estimated cost, less accumulated depreciation and 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 item when that cost is incurred when 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 repairs and maintenance are expensed during the period in which they have incurred.

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.

	2019	2018
Buildings	50 years	50 years
Equipment	4 – 10 years	4 – 10 years
Office furniture	4 - 10 years	4 years
Assets under operating leases (depending on the duration of the 1contract, depreciated to the residual value)	2 – 20 years	2 – 20 years

By extending the useful life of the assets, the depreciation cost was reduced by HRK 4 million in 2019.

The assets’ residual values, depreciation method and useful lives are reviewed, and adjusted if appropriate, at each reporting 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 as the difference between proceeds and net carrying amount, and are included in profit or loss.

Investment properties

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

Subsequent cost of replacing part of existing property is recognized in the carrying amount of an investment property only 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.

The estimated useful life of the assets is as follows:	2019	2018
Leased property	50 years	50 years

Residual value, depreciation methods and the estimated useful lives are reviewed periodically and adjusted, if appropriate, at each reporting date. If the asset's carrying amount is greater than the estimated recoverable amount, it is immediately written down to the recoverable amount. Gains and losses on disposal are are determined as the difference between sale proceeds and the carrying amount and recorded in the statement of comprehensive income.

4. Significant accounting policies (continued)

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.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Costs from development activities are capitalised if all of the requirements under 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 expensed 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:

	2019	**2018**
Leasehold improvements (depending on term of lease contract)	1 - 20 years	1 - 20 years
Software	5 - 10 years	5 - 8 years

By extending the useful life of the assets, the depreciation cost was reduced by HRK 1 million in 2019.

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 of impairment 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 assessed 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. For the purpose of 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 previous years are reviewed 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.

4. Significant accounting policies (continued)

Provisions for liabilities and charges

Provisions are recognised when the Group has a present 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.

The management determines the sufficiency of the provisions on the basis of insight into specific items, recent loss experience, current economic circumstances, risk characteristics of certain transaction categories, as well as other relevant 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.

Leases

Policy applicable as of 1 January 2019

The Group applied IFRS 16 using the adjusted retrospective approach and consequently comparative information has not been restated and is presented in accordance with IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are presented separately.

The Group assesses at contract inception whether a contract is, or contains, a lease. The contract contains a lease component if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In order to assess whether a contract conveys the right to control the use of an identified asset, the Group uses a definition of lease under IFRS 16.

This policy applies to contracts entered into (or amended) on or after 1 January 2019.

Leases – Group as a lessor

Lessors continue to classify leases as operating or finance leases, using the same principle of classification as under the previous IAS 17.

The Group as lessor determines at the commencement date of the lease whether a lease is a finance lease or an operating lease.

For the purpose of classifying each lease, the Group conducts an overall assessment of whether the lease contract transfers substantially all the risks and rewards incidental to ownership of an asset. If this is the case, then the lease is a finance lease; otherwise the lease is an operating lease. When this assessment is performed, the Group considers certain indicators such as whether the lease covers most of the economic life of the property.

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.

4. Significant accounting policies (continued)

Leases (continued)

Leases – Group as a lessee

At the commencement date leases are recognised in the statement of financial position of the lessee as right-of-use assets and lease liabilities in the amount equal to fair values of the leased property or, if lower, the present value of the minimum lease payments designated at the lease's inception.

Right-of-use assets are measured at cost comprising the following: (a) the amount of the initial measurement of lease liability, (b) any lease payments made at or before the commencement date less any lease incentives received, (c) any initial direct costs incurred by the lessee, and (d) an estimate of the restoration costs to be borne by the lessee in dismantling and disposing of the property, restoring the location of the property or restoring the property to the condition required under the terms of the lease. The lessee incurs a liability for these costs at commencement date of the lease or as a result of the use of the relevant property over a specified period.

After the commencement date of the lease the Group measures right-of-use assets at cost. The lessee measures the right-of-use assets at cost: (a) less accumulated depreciation and any accumulated impairment losses; and (b) adjusted for any remeasurement of lease liabilities. The Group applies the depreciation requirements in IAS 16 Property, Plant and Equipment to the depreciation of right-of-use assets, subject to the requirements in paragraph 32.

Lease liability is initially measured at the present value of the remaining minimum lease payments which have not been made before that date. The discount rate is the interest rate implicit in the lease, if it can be determined; or, if that rate cannot be readily determined, the lessee applies the lessee's incremental borrowing rate. The lessee's incremental borrowing rate is the interest rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

After the lease commencement date, the lessee measures the lease liability at amortised cost using the effective interest method in order to: (i) increase the carrying amount of the lease to reflect interest on the lease liability; (ii) decrease the lease's carrying amount for the lease payments made; and (iii) remeasure the carrying amount of the lease to reflect the reassessment or modification of the lease, or to reflect modified lease payments that are substantially fixed.

After the lease commencement date the lessee recognises in the profit and loss: a) interest on lease liability and b) variable lease payments that are not included in the measurement of the lease liabilities in the period in which the event or condition that triggers those payments occurs.

IFRS 16 requires a remeasurement of a lease liability when there changes are made to the lease payment that is not accounted for as a separate lease.

The reassessment of the lease liability should reflect changes made to the lease payment. Lease payments are modified when there are: (i) changes in amounts expected to be payable under the residual value guarantee; (ii) change in future lease payments based on change in index or rate unless a variable interest rate is applied; The lessee is required to recognise the amount of the remeasured lease liability as revaluation of the right-of-use asset.

The discount rate is revised when the lease payments are modified based on the change of: (i) the variable interest rate (when the variable interest rate is used in the lease); (ii) the terms of the lease; (iii) the assessment of the possibility of purchasing the respective asset.

The revised discount rate is the interest rate implicit in the lease for the remaining lease period, if that rate can be readily determined, or, if that rate cannot be readily determined, then the lessee's incremental borrowing rate at the reassessment date is applied.

4. Significant accounting policies (continued)

Leases (continued)

Lease modification
Lease modification is a change in the volume of the lease or in a lease fee that was not part of the original lease terms (for instance addition or termination of the right to use one or more items of the property, or extension or reduction the contractual life of the lease).
Exercising an existing purchase option or renewing a purchase option or modification of assessment whether a purchase option is likely to be exercised does not result in the modification of the lease but in the re-measurement of the lease liability and the right-of-use asset.

Policy applicable before 1 January 2019

Group as a lessor

Finance lease

For finance leases, the Group initially recognized the leased asset as a receivable in the statement of financial position and presented it as a receivable in an amount equal to its net investment in the lease. Net rental investment is a gross rental investment discounted at the interest rate implicit in the lease. The interest rate implicit in the lease was the discount rate that at the beginning of the lease required that the total present value of the minimum lease payments and the non-guaranteed residual value was equal to the sum of the fair value of the leased asset and all direct costs of the lessor. The difference between gross finance lease receivable and the present value of the receivable represents unearned financial income. At initial recognition, finance lease income was recognized over the lease period on a basis using the net investment method, which reflects a constant periodic rate of return on the lessor's net investment.

Operating lease

For operating leases, the Group initially recognized the assets under operating lease arrangements in the statement of financial position in accordance with the nature of the assets. At initial recognition, the income under operating leases was recognised in income on a straight-line basis over the lease term. Initial direct costs incurred by the lessor in negotiating and arranging operating leases are added to the carrying amount of the leased asset and expensed over the lease term on the same basis as rental income. The leased property depreciation policy was in line with the Group's standard depreciation policy applied to similar assets.

Group as a lessee

Finance lease

Leases in which the Group as the lessor takes substantially all the risks and rewards incidental to ownership of an asset are classified as finance lease. Plant and equipment whose acquisition is associated with such leases are stated at the lower of the amount equal to their fair value or the present value of the minimum lease payments at the lease's commencement date, less accumulated depreciation and impairment losses. Property leased under operating leases is amortized on a straight-line basis, writing down the cost of the property over the estimated lease term to their residual recoverable amount. When calculating the present value of the minimum lease payments, the discount rate was the interest rate implicit in the lase if it could t be determined, and, if it could not e readily determined, then the lessee's incremental borrowing rate was used. All the lessee's initial direct costs were added to the amount recognized as asset.

4. Significant accounting policies (continued)

Leases (continued)

Policy applicable before 1 January 2019

Group as a lessee (continued)

Finance lease (continued)

Minimum lease payments were evenly allocated between the finance cost and the reduction of the outstanding liability. The finance cost was allocated to periods over the lease term so as to produce a constant periodic interest rate on the remaining balance of the liability for each period. Contingent rents were recognised as expense in the periods in which they were incurred.

The finance lease resulted in depreciation expense for the amortising assets as well as financial expenses for each accounting period. Depreciation policy for leased amortising assets has been consistent with the depreciation of assets owned by the Group. If there was no reasonable certainty that the lessee will obtain ownership at the end of the lease term, the property was fully depreciated over the shorter of the lease term and its useful life.

Operating lease

Leases which did not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased property were classified as operating leases. Operating lease payments were recognised in the statement of comprehensive income on a straight-line basis over the lease term.

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 the 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 of government bonds the currency and terms of which are consistent with the currency and estimated terms of the long-term benefit obligation.

c) Pension insurance

Provisions for pension insurance in 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.

4. Significant accounting policies (continued)

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 comprise 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 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 stated at the higher of the loss allowance determined in accordance with IFRS 9 and the amount of the initially recognized loss less, if applicable, 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 and charges a fee for the services rendered. These assets do not represent the Group's assets and 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 in the profit and loss statement, are described below. Significant judgments made in determining the most appropriate methodology for estimating the fair value of financial instruments carried at fair value, 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 the carrying amount 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 50) and management of financial risks (Note 49).

Notes to the financial statements (continued)

5. Significant accounting estimates and judgements

a) Classification of financial assets

Business model assessment

The Bank determines its business models based on the objective of financial asset portfolio management. Refer to Note 4 Significant accounting policies – Financial instruments: classification for details on the Bank's business models. In determining its business models, the Bank considers the following information:

- Management's intent and strategic objectives and the operation of the stated policies in practice;
- 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
- The frequency and volume of financial asset sales in prior periods, the reasons for such sales and the expectations about future sales activities.

Solely Payments of Principal and Interest Test (SPPI 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 whether 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 consideration of the time value of money.

b) Impairment of financial assets

Significant increase in credit risk

When determining whether the risk of default has significantly increased, the Bank uses reasonable and supportable information that is relevant and available. This includes quantitative and qualitative information based on the historical-based analysis and expert credit risk assessment, and includes forward looking information.

The quantitative criterion or quantitative materiality threshold relates to the change in the estimate of lifetime probability of default of the credit exposure at the reporting date, compared to the estimate on the exposure originating date. If the difference in the estimation of probability of default exceeds the materiality threshold, the material increase in credit risk is determined for that asset, which is consequently classified in 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, adjusted for the status of a macroeconomic position. The estimate of the increased risk is based on the level of credit risk existing at the time of approval of the credit exposure. 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 includes information that can be obtained from internal rating models used as inputs in rating. Since all information is contained 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, regulatory definitions of forbearance and non-performing exposure, and asset being more than 30 days past due.

5. Significant accounting estimates and judgements (continued)

b) Impairment of financial assets (continued)

In retail exposures, the estimated probability of default is based on the scoring models used by the Bank in managing credit risk, as well as statistical models and statistical estimates, depending on the type of exposure and including the impact of expected macroeconomic developments.

Qualitative criteria include identification of forbearance indicators, holistic access indicators, asset being more than 30 days past due, default on the customer's other exposures (as the default definition applies on the product level for exposure to the private individuals). If at least one indicator of a significant increase in credit risk is detected in comparison with the assessment at the facility origination date, the asset is allocated to Stage 2 (category A2 / Stage 2).

Default

The default of the Bank's exposures is determined on the basis of the regulatory requirements defined in Article 178 of Regulation (EU) 575/2013, EBA Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013, EBA Regulatory Technical Standards on materiality threshold of credit obligations past due under Art.178 EU Regulation 575/2013 and CNB Decision amending the decision implementing Regulation (EU) no. 575/2013 in the valuation of assets and off-balance sheet items and the calculation of regulatory capital and capital requirements.

In the retail segment, the default is determined on the facility level for private individuals, whereas, for all legal entities (including Micro and SME customers), the default status is determined on the obligor level.

In non-retail segment, the Bank implemented a new default definition for non-retail customers as of 30 November 2019. The major change is the change in the materiality threshold which is used to calculate days past due as one of the default indicators (overdue payment).

With the application of the new definition, the Bank is obliged to monitor the calculation of DPD in the non-retail segment within the next 12 months from the date of application of the new default definition (and the new materiality threshold) according to both the new and the old definition.

The Bank also implemented the new default definition in the retail segment as of 30 November 2019 by conducting a retrospective calculation of historical daily default data for the past 10 years (5 years for the Micro segment). On the basis of such retrospective calculation, the Bank determined default data as at 30 November 2019 and related detailed information on default events.

The biggest methodological change in the default definition in the retail segment relates to:

1. Change in days past due counter:
    - Materiality threshold of past due amount for the calculation of days past due (DPD) is HRK 750 and 1 percent of balance-sheet exposure, instead of the previous HRK 70 and no threshold,
    - the logic of counting of days past due (DPD) has changed, and, rather than considering the actual age of the amount past due, the counter counts how many days the debt exceeds the materiality threshold. This change is reflected in the fact that, when partial payment is made on an obligation, the number of days past due cannot be reduced, that is, the new counter can only be reset to zero when the debt due falls below one of the materiality thresholds (absolute or relative).
2. Introduction of the pulling effect – if a private individual's exposure in default exceeds 20% of this obligor's total exposure, all other exposures of that individual should be also considered defaulted.
3. Change of distressed restructuring rules and introduction of additional unlikeliness to pay indicators, such as significant indebtedness and the loss of sufficient recurring income.

5. Significant accounting estimates and judgements (continued)

b) Impairment of financial assets (continued)

Also, the rules for fulfilment of criteria for the return to non-defaulted status have been partially modified. All defaulted facilities at the reporting date are allocated to Stage 3 (category B or C).

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 reporting date using 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 12-month period, i.e. 12-month expected credit loss is estimated.

PD estimates represent point-in-time PD, adjusted annually according to the Group's historical experience, current conditions and forward-looking information and expectations on future drawdowns where applicable.

Probability of default (PD) is an estimate of the likelihood that a client (or facility in the retail segment) will default in the next 12 months or for the remaining lifetime of the exposure (lifetime PD).

In the Retail segment, the likelihood of defaulting for the remaining lifetime of exposure is generated by a parametric survival function with existence of prepayment risk. Expectations of future macroeconomic developments are included in the estimation of the PD curve.

Loss given default (LGD) represents the Group's expectation of loss if there is a default event on a placement which was in non-default status at the time of assessment. LGD varies depending on the business segment (retail, non-retail) and product type (for instance, housing loans versus unsecured personal loans). LGD is expressed as a percentage of exposures at the default start date.

LGD estimates are determined on the basis of the history of recovery rates.

In the Retail segment, LGD is estimated on the basis of historical default data, recovery after default start date, and direct collection costs. Collection and collection costs are discounted. Unlike the regulatory LGD model, the LGD model used to calculate ECL for the purpose of measuring asset impairment does not include indirect collection costs or margins of conservativism, but does include the estimated impact of expected future developments in macroeconomic indicators.

EAD includes forward-looking forecasts on repayments of the amounts which were drawn and expectations of future drawdowns where applicable.

For revolving products in the Retail segment, the Group makes no estimates of the future utilization limits, but the entire amount of the limit is considered in the EAD when calculating the expected loss.

For retail exposures (private individuals and Micro businesses) in default status (Stage 3), estimates of expected credit losses and the calculation of allowance are also made on a collective basis, using the BEEL parameters. Namely, the Bank has developed statistical loss estimate models (BEEL - best estimate of expected loss) for the private individuals portfolio, which are based on the Bank's own historical data. BEEL primarily depends on the months in default, and for unsecured placements it also depends on the number of months elapsed since the last loan payment was made.

5. Significant accounting estimates and judgements (continued)

b) Impairment of financial assets (continued)

Shared credit risk characteristics

Almost all provisions for expected credit losses are measured on a collective basis, except for the Stage 3 portfolio in the non-retail segment, where the loss estimates are made on an individual basis.
For the purpose of making appropriate estimation of the expected losses on a collective basis, the Group has segmented the portfolio by customer type (non-retail, retail, PI / Micro) and product type/group, in order to build homogeneous groups of clients/transactions with similar risk characteristics. The risk parameters (PD, LGD) are then determined for all segments, which are used for the estimation of the expected credit loss.

In the Retail segment, over 85 percent of the portfolio is covered by statistical risk assessment models, and the rest of the portfolio uses benchmark values, depending on the type of product and segment, and they are estimated at the RBI level.

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

The final calculation represents the higher of the estimated expected loss amount based on the BEEL parameters, the minimum rates set out in the Decision on the classification of exposures and, for the secured facilities, the amount less the expected cash flow from the sale of collateral.

Impairment allowance on assets that are individually assessed as impaired assets are based on the management's best estimate of the present value of cash flows expected to be recovered. 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 irrecoverable cash flows is independently approved by the credit risk function.

Minimum requirements of the CNB are duly taken into account.

Forward looking information

When making an assessment whether there was an increase in credit risk in relation to the expected credit risk at the inception date and estimating the expected credit loss, the Group has incorporated the expectations of macroeconomic developments in the future.

The Group has analysed the historical data on the development of macroeconomic indicators and their impact on the probability of default and loss given default. The result of these analyses are macroeconomic models, with macroeconomic indicators which present, on historical data, the most significant impact on the level of credit risk and expected loss, as economic variables.

Therefore, in calculating ECL, the Group applies internally developed PD and LGD models. Macroeconomic forward-looking macroeconomic factors, determined on a regional level, are incorporated in risk parameters as relevant factors. Three scenarios are used in the forecast of macroeconomic variables (baseline with 50 percent weight, upside and downside scenarios with 25 percent weight).

All three scenarios for macroeconomic variable forecasts for the next three years are estimated by Raiffeisen Research (RBI). Estimates are made on a quarterly basis.

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

5. Significant accounting estimates and judgements (continued)

b) Impairment of financial assets (continued)

Forward looking information (continued)

Measurement of financial assets reflects also the best estimate of the impact of future conditions, and in particular the economic conditions affecting forward-looking information on probability of default and loss given default.

With respect to the method, different possible alternative approaches have been analysed to take account of these elements. Of the various options that have been considered, the Group has elected to adopt the Most likely scenario + Add-on approach. Based on this approach, the macroeconomic conditioning of PD and LGD is run through the Most-likely scenario and then adjusted by applying the Add-on to incorporate all the differences compared to downside and upside scenarios.

For POCI assets, the lifetime expected loss is measured, depending on whether the asset is allocated to Stage 2 or Stage3 (initial measurement is always the same as for Stage 3, because a POCI asset is always in default on initial measurement) using interest adjusted for the expected credit loss. In the retail segment, as those are generally restructured placements, this adjusted interest rate actually represents a new effective interest rate.

The expected credit loss allowance is calculated by deducting the initial impairment amount from the expected loss at the reporting date. Thus, if the expected loss at the reporting date is less than the initial impairment, the impairment losses at the reporting date will have a negative sign.

POCI assets in retail are automatically recognised in the application calculating EIR, modifications, expected losses and impairment allowance, based on information about new instrument recognition, which is created by the system and information that the asset is in default status. Thus, in the retail segment, any asset that, on initial recognition (initial measurement or, due to a significant modification, subsequent measurement), is also in default status, is automatically recognised as a POCI asset.

Non-retail POCI are assessed on an individual basis and are designated on the basis of general guidelines for determining significant modification (in accordance with internal instructions).

Low Credit Risk Portfolio Exceptions

The Bank does not estimate the expected credit loss based on the exceptions provided under IFRS 9 for the low credit risk portfolio for any credit exposure portfolio.

Expected credit losses

Expected credit losses are recognised on initial recognition of financial assets. Credit loss allowance represents the management's best estimate of the risk of default and expected credit losses (ECL) on financial assets, including all off-balance sheet exposures, at the reporting date.

The management uses judgment to select the most appropriate point in the range which is the best estimate of the qualitative component contributing to ECL, on the basis of the assessment of business and economic conditions, historical loss experience, credit portfolio composition and other relevant indicators and advanced information indicators. The management uses judgment to ensure that the loss estimate based on historical experience is appropriately adjusted to reflect current economic conditions. Loss ratios are regularly compared to the actual loss experience. Changes to these assumptions may have a direct impact on credit loss allowance and may result in a change in loan loss provisions.

5. Significant accounting estimates and judgements (continued)

c) Impairment of financial assets (continued)

CNB requirements

The Bank and the Group ensure compliance at all times with the CNB's requirements in respect of the Decision on classification of exposures 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.

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 Group and the Bank determine the fair value of treasury bills issued by the Ministry of Finance of the Republic of Croatia, using an internal model which considers the residual maturity and the latest available auction prices of equivalent instruments. As at 31 December 2019, 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 320 million (2018: HRK 1,073 million) for the Group and HRK 245 million (2018: HRK 978 million) for the Bank.

e) Provisions for severance payments

In calculating provisions for severance payments, the Group discounts expected future cash flows on those payments, using discount rates that, according to the management's judgment, best reflect 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. The Bank's management maintains provisions on the level considered to be sufficient to absorb incurred losses and determines the sufficiency of provisions on the basis of insight into specific items, current legal circumstances, as well as other relevant factors.

According to the CNB decision a credit institution shall allocate litigation to risk category A (no risk of loss or a cash flow outflow established, or up to 10 percent of the total estimated amount), risk category B (a risk of loss or cash outflow established between 10 percent and 70 percent of total estimated amount) or risk category C (high risk of loss or cash outflow of more than 70 percent of the total estimated amount). In determining the current value of future cash flows, taking into account all factors that had or will have an impact on the time value of money, the Bank calculated the amount of provisions for litigation initiated by consumers in CHF loan cases for the year ending 31 December 2019. The calculation of the provision amount is based on the total number of individual litigations initiated by consumers against the Bank plus the estimated number of new lawsuits in 2020.

On the basis of the average value of the claim in lawsuits initiated in 2019, the average value of the claim for expected disputes in 2020 has been projected.

6. Significant accounting estimates and judgements (continued)

f) Provisions for court cases (continued)
The total amount of potential bank losses in consumer CHF-loan related court cases is calculated on the basis of the total number of initiated and projected court cases and the average value of the claim. The amount of default interest is added on the loss amount. Finally, the expected legal costs of litigation pending final judgment have been projected. Together with the total value of the claim and the applicable default interest, the litigation costs represent the total potential loss of the bank in CHF-loan related court cases.

An adjustment has been made to the Bank's potential total loss in CHF-loan related court cases on the basis of an estimate of the probability of litigation loss. An additional adjustment to the total amount of the potential loss relates to the estimation of the probability of acceptance of admissibility of a statute of limitations on a claim. After incorporating both adjustments for those probabilities, the total amount of provisions for consumer CHF-loan court cases has been calculated. For all claims exceeding the HRK 70 thousand materiality threshold, individual provisions for court cases have been formed. General provisions have been formed covering the difference up to the total amount of provisions.

The Bank applies the discount rate which is equal to the statutory default rate and CNB discount rate applicable on the last day of the six-month period preceding the current six-month period increased by 8 basis points for court cases pending against the Bank by corporate entities, and 5 basis points for all other court cases pending against the Bank. Provisions for court cases accounted for as provisioning cos for the period in which the provisions are recognised

As explained in Note 24, the Group and the Bank booked HRK 198 million (2018: HRK 75 million) and HRK 184 million (2018: HRK 61 million) in provisions for principal and interest respectively for court cases which management estimates to be sufficient. These amounts represent the Group's best estimate of the litigation losses, although the actual loss on the court cases pending against the Group 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 provisioning requirement.

g) Pension insurance
In accordance with the legal framework, the Group provides an option 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 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 reserve calculated by the certified actuary of the pension insurance company in accordance with the good actuarial practice and law. The management believes that the calculated technical reserve is 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) Additional Tier 1 capital
The Bank issued a bond (AT1) and classified it as an equity instrument based on fulfilment of requirements of IAS 32 - Financial Instruments: Presentation.

The bond includes no contractual obligation to deliver cash or another financial assets to another entity because both the potential redemption of the AT1 instrument and the cash payments are the Bank's discretion. The instrument also includes no contractual obligation to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank. Furthermore, the AT1 instrument will not be settled in the Bank's own equity instruments. There is no option that would result in the conversion of the instrument into ordinary shares of the Bank

5. Significant accounting estimates and judgements (continued)

j) Classification of lease contracts

The Group is a lessor in operating and finance leases. Lease where the Group as a lessor transfer substantially all the risks and rewards of the asset to the lessee then the contract is classified as finance lease. All other leases are classified as operating leases and included in property and equipment under operating leases at cost net of accumulated depreciation. In determining whether a lease should be classified as operating or finance lease, the Group considers the requirements under *IFRS 16 Leases*.

At the start of implementation of IFRS 16, the Bank determined that it has the following contracts which include a lease:

- Business premises lease agreements
- ATM location lease agreements
- Official car lease agreements

IFRS 16 introduced several limited exceptions for leases, which include:

- Leases with a lease term of 12 months or less, with no purchase option,
- Leases where the underlying asset is of low value (below EUR 5,000)

Therefore the Bank exempted the following contracts from the application of IFRS 16:

- ATM location lease agreements
- Printer lease agreements
- advertising space lease agreements

Also, all contracts with a residual term of less than one year are exempt from application of IFRS 16.

To calculate the discounted value of the future lease cost, or the right-of-use assets, the benchmark interest rate at the interbank curve plus liquidity cost, separately for EUR and separately for HRK, is used. Given that the benchmark interest rate is set at a round number of years, for contracts with a term which is not a round number of years, the rate is calculated as a linear interpolation. In cases where the interest rate is negative (for short contract terms), it is set at 0 percent.

Until 31 December 2018 the amount of lease of business premises, ATM locations and cars is presented as an expense within Operating expenses.

k) Determination of control

In accordance with requirements of *IFRS 10 Consolidated Financial Statements*, the Group regularly reassess whether it has control over significant activities of debtors in financial distress which are unable to service when due their credit obligations to the Group. The Group assessed that there are no debtors which should be consolidated in 2019, which is consistent with the assessment made for 2018.

l) Valuation of instruments of Fortenova Group

Based on the ruling of the High Commercial Court of 26 October 2018 the Group acquired 2,482,121 sets of new Fortenova Group instruments (four convertible bonds and one depositary instrument). These instruments are classified as financial assets at fair value through profit or loss for which the Bank will perform the valuation on a regular basis. Subsequently, another 627,743 sets of new instruments were acquired under pre-bankruptcy settlement.
Given that these are instruments issued by a newly established company under special court settlement, and there is no reliable method to determine the fair value of those instruments, and in accordance with the precautionary principle, the Group initially elected to value 1 set at 1 cent. During 2019, there were no changes in initial assumptions and the Group retained the same value as at 31 December 2019 (HRK 231 thousand).

5. Significant accounting estimates and judgements (continued)

m) Investments in subsidiaries

The management considers that investments in subsidiaries are stated at their recoverable amount in separate financial statements.

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.

Notes to the financial statements (continued)

6. Segment reporting (continued)

2019 Group HRK millions	Corporate	Retail	Treasury	Asset manage-ment	Shared services	Unallocated	Total 2019
Net interest income	219	500	129	25	25	-	898
Net fee and commission income	162	158	10	168	3	-	501
Trading and other income	126	28	31	420	26	25	656
Operating income	**507**	**686**	**170**	**613**	**54**	**25**	**2,055**
Operating expenses	(312)	(459)	(85)	(499)	(62)	(28)	(1,445)
Impairment losses	(26)	(7)	4	-	3	-	(26)
Provisions for liabilities and charges	(14)	9	-	(23)	-	(122)	(150)
Profit/(loss) before tax	**155**	**229**	**89**	**91**	**(5)**	**(125)**	**434**
Income tax expense	-	-	-	-	-	(13)	(13)
Profit/(loss) for the year	**155**	**229**	**89**	**91**	**(5)**	**(138)**	**421**
Segment assets	7,148	10,712	13,298	997	1,112	-	33,267
Unallocated assets	-	-	-	-	-	3,577	3,577
Total assets	**7,148**	**10,712**	**13,298**	**997**	**1,112**	**3,577**	**36,844**
Segment liabilities	12,619	14,478	2,086	863	1,103	754	31,903
Equity	-	-	-	-	-	4,941	4,941
Total equity and liabilities	**12,619**	**14,478**	**2,086**	**863**	**1,103**	**5,695**	**36,844**

Notes to the financial statements (continued)

6. Segment reporting (continued)

2018 Group HRK millions	Corporate	Retail	Treasury	Asset manage-ment	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)

2019 Bank HRK millions	Corporate	Retail	Treasury	Unallocated	Total 2019
Net interest income	199	500	129	-	828
Net fee and commission income	173	158	10	-	341
Trading and other income	92	28	116	25	261
Operating income	**464**	**686**	**255**	**25**	**1,430**
Operating expenses	(268)	(459)	(85)	(28)	(840)
Impairment losses	(25)	(6)	4	-	(27)
Provisions for liabilities and charges	(14)	9	-	(122)	(127)
Operating expenses	**(307)**	**(456)**	**(81)**	**(150)**	**(994)**
Profit/(loss) before tax	**157**	**230**	**174**	**(125)**	**436**
Income tax expense	-	-	-	2	2
Profit/(loss) for the year	**157**	**230**	**174**	**(123)**	**438**
Segment assets	6,990	10,712	13,298	-	31,000
Unallocated assets	-	-	-	3,076	3,076
Total assets	**6,990**	**10,712**	**13,298**	**3,076**	**34,076**
Segment liabilities	12,083	14,479	2,086	754	29,402
Equity	-	-	-	4,674	4,674
Total equity and liabilities	**12,083**	**14,479**	**2,086**	**5,428**	**34,076**

2018 Bank HRK millions	Corporate	Retail	Treasury	Unallocated	Total 2018
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**

Notes to the financial statements (continued)

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.

2019 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	-	-	-	-	5,125	5,125
Obligatory reserve with the Croatian National Bank	9	-	-	-	-	1,969	1,969
Financial assets at fair value through profit or loss	10	558	939	-	-	-	1,497
Placements with and loans to other banks	11					554	554
Loans from and advances to customers	12					19,867	19,867
Investment securities							
- measured at fair value	13	-	-	5,253	50	-	5,303
- measured at amortised cost	13	-	-	-	-	798	798
Total financial assets		**558**	**939**	**5.253**	**50**	**28,313**	**35,113**
Financial liabilities							
Financial liabilities at fair value through profit or loss	19	81	-	-	-	-	81
Deposits from banks	20	-	-	-	-	1,171	1,171
Deposits from companies and other similar entities	21	-	-	-	-	11,018	11,018
Deposits from individuals	22	-	-	-	-	15,543	15,543
Borrowings	23	-	-	-	-	1,995	1,995
Subordinated liabilities	26	-	-	-	-	524	524
Total financial liabilities		**81**	**-**	**-**	**-**	**30,251**	**30,332**

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 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							
- measured at fair value	13	-	-	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**

Notes to the financial statements (continued)

7. Financial assets and financial liabilities (continued)

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

2019 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	-	-	-	-	5,109	5,109
Obligatory reserve with the Croatian National Bank	9	-	-	-	-	1,969	1,969
Financial assets at fair value through profit or loss	10	568	114	-	-	-	682
Placements with and loans to other banks	11						
- measured at fair value		36	-	-	-	-	36
- measured at amortised cost		-	-	-	-	505	505
Loans from and advances to customers	12						
- measured at amortised cost		-	-	-	-	18,456	18,456
Investment securities							
- measured at fair value	13	-	-	5,086	50	-	5,136
- measured at amortised cost	13	-	-	-	-	523	523
Total financial assets		**604**	**114**	**5.086**	**50**	**26.562**	**32.416**
Financial liabilities							
Financial liabilities at fair value through profit or loss	19	80	-	-	-	-	80
Deposits from banks	20	-	-	-	-	1,303	1,303
Deposits from companies and other similar entities	21	-	-	-	-	11,170	11,170
Deposits from individuals	22	-	-	-	-	14,458	14,458
Borrowings	23	-	-	-	-	1,058	1,058
Subordinated liabilities	26	-	-	-	-	524	524
Total financial liabilities		**80**	**-**	**-**	**-**	**28,513**	**28,593**

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**

8. Cash and current accounts with banks

	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Cash in hand	1,242	1,049	1,242	1,049
Giro account with the Croatian National Bank	3,821	4,194	3,821	4,194
Current accounts with other banks				
- with parent bank	9	13	8	13
- with other Raiffeisen Bank International AG ("the RBI") group banks	5	2	5	1
- with other banks	80	83	64	75
	5,157	**5,341**	**5,140**	**5,332**
Impairment allowance	(32)	(35)	(31)	(34)
	5,125	**5,306**	**5,109**	**5,298**

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

			Stage 1 and 2	
	Group 2019 HRK millions	**Group 2018 HRK millions**	**Bank 2019 HRK millions**	**Bank 2018 HRK millions**
At 1 January	35	31	34	31
Net charge recognised in profit or loss (Note 34)	(3)	4	(3)	3
At 31 December	**32**	**35**	**31**	**34**

9. Obligatory reserve with the Croatian National Bank

	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Obligatory reserve in domestic currency	1,985	1,924	1,985	1,924
	1,985	**1,924**	**1,985**	**1,924**
Impairment allowance	(16)	(15)	(16)	(15)
	1,969	**1,909**	**1,969**	**1,909**

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

	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Stage 1 and 2 Bank 2018 HRK millions
At 1 January	15	15	15	15
Net release recognised in profit or loss (Note 34)	1	-	1	-
At 31 December	**16**	**15**	**16**	**15**

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 2019 was 12% (2018:12%) of relevant HRK and foreign currency deposits and borrowings.

As at 31 December 2019 the required rate of HRK denominated part of the obligatory reserve to be deposited with the CNB amounted to 70% (2018:70%), while the remaining 30% (2018:30%) had to be maintained in the form of liquid receivables. 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 were 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.

Notes to the financial statements (continued)

10. Financial assets at fair value through profit or loss

	Group 2019	Group 2018	Bank 2019	Bank 2018
	HRK millions	HRK millions	HRK millions	HRK millions
Financial assets mandatorily measured at fair value through profit or loss:				
Non derivative trading assets:				
Debt securities:				
- Domestic government bonds, listed	462	248	462	248
- Foreign government bonds, listed	-	121	-	121
- Treasury bills issued by the Ministry of Finance	20	384	20	384
- Securities issued by companies, listed	14	19	14	19
Accrued interest	4	2	4	2
	500	**774**	**500**	**774**
Equity securities, listed	6	5	6	5
Derivative trading assets:				
Positive fair value of OTC derivative instruments	51	49	61	51
Accrued interest	1	1	1	1
	52	**50**	**62**	**52**
Positive fair value of OTC spot transactions		**-**		**-**
Total financial assets mandatorily measured at fair value through profit or loss	**558**	**829**	**568**	**831**
Financial assets designated at fair value through profit or loss				
Non derivative trading assets:				
Debt securities:				
- Domestic government bonds, listed	545	344	-	-
- Foreign government bonds, listed	124	8	-	-
- Bonds issued by banks, listed	7	58	-	51
- Securities issued by companies, listed	121	159	112	135
- Treasury bills issued by the Ministry of Finance	75	70	-	-
Accrued interest	8	7	1	2
	880	**646**	**113**	**188**
Equity securities	**1**	**1**	**-**	**-**
Investments in investment funds managed by related and third parties	57	57	-	-
Derivatives – hedge accounting	1	-	1	-
Total financial assets designated at fair value through profit or loss	**939**	**704**	**114**	**188**
	1,497	**1,533**	**682**	**1,019**

Investment in treasury bills issued by the Republic of Croatia Ministry of Finance in the amount of HRK 75 million (2018: HRK 70 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 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Loans and deposits at amortised cost				
- Loans	23	46	24	46
- Deposits	535	1,498	485	1,473
	558	1,544	509	1,519
Loans, mandatorily measured at fair value through profit or loss	-	-	36	36
	558	**1,544**	**545**	**1,555**
Impairment allowance	(4)	(12)	(4)	(12)
	554	**1,532**	**541**	**1,543**

a) Movement in impairment allowance for placements and loans to other banks

Group

	Stage 1 and 2 HRK millions	2019 Total HRK millions	Stage 1 and 2 HRK millions	2018 Total HRK millions
At 1 January	12	12	7	7
Net charge/(release) recognised in profit or loss (Note 34)	(8)	(8)	5	5
At 31 December	**4**	**4**	**12**	**12**

Bank

	Stage 1 and 2 HRK millions	2019 Total HRK millions	Stage 1 and 2 HRK millions	2018 Total HRK millions
At 1 January	12	12	7	7
Net charge/(release) recognised in profit or loss (Note 34)	(8)	(8)	5	5
At 31 December	**4**	**4**	**12**	**12**

Notes to the financial statements (continued)

12. Loans from and advances to customers

	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Loans to companies and similar entities at amortised cost				
- denominated in domestic currency	2,199	1,904	2,342	2,038
- denominated in or linked to foreign currency	5,566	5,162	5,766	5,176
Loans to individuals				
- denominated in domestic currency	7,886	6,536	7,751	6,437
- denominated in or linked to foreign currency	4,277	4,203	3,639	3,580
Finance lease receivables, denominated in or linked to foreign currency	1,015	829	-	-
Accrued interest	53	70	53	69
Deferred income	(38)	(49)	(37)	(47)
	20,958	**18,655**	**19,514**	**17,253**
Impairment allowance	(1,091)	(1,192)	(1,058)	(1,154)
	19,867	**17,463**	**18,456**	**16,099**

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

Group		2019				2018
	Stage 3 HRK millions	Stage 1 and 2 HRK millions	Total HRK millions	Stage 3 HRK millions	Stage 1 and 2 HRK millions	Total HRK millions
At 1 January	**965**	**227**	**1,192**	**1,831**	**266**	**2,097**
Increase/(decrease) of impairment allowance	54	62	116	426	(38)	388
Amounts recovered during the year	(84)	(2)	(86)	(182)	-	(182)
Net charge/(release) in profit or loss (Note 34)	***(30)***	***60***	***30***	***244***	***(38)***	***206***
Net foreign exchange loss	1	(1)	-	(2)	(1)	(3)
Write offs and sale	(131)	-	(131)	(1,108)	-	(1,108)
At 31 December	**805**	**286**	**1,091**	**965**	**227**	**1,192**

12. Loans from and advances to customers (continued)

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

Bank			**2019**			**2018**
	Stage 3	**Stage 1 and 2**	**Total**	**Stage 3**	**Stage 1 and 2**	**Total**
	HRK millions	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**
At 1 January	**938**	**216**	**1,154**	**1,271**	**254**	**1,525**
Increase/(decrease) of impairment allowance	55	63	118	416	(38)	378
Amounts recovered during the year	(85)	-	(85)	(180)	-	(180)
Net charge/(release) in profit or loss (Note 34)	***(30)***	***63***	***33***	***236***	***(38)***	***198***
Net foreign exchange loss	1	1	2	(1)	-	(1)
Write offs and sale	(131)	-	(131)	(568)	-	(568)
At 31 December	**778**	**280**	**1,058**	**938**	**216**	**1,154**

During 2019 the Bank sold a part of its non performing loans to customers, with the gross value of HRK 232.6 million (2018: HRK 690.3 million) (of which loans to companies and similar entities amounted to HRK 71.6 million (2018: HRK 372.6 million) and loans to individuals amounted to HRK 161 million (2018: HRK 317.7 million), or net value of HRK 8.3 million (2018: HRK 46.0 million) (of which loans to companies and similar entities amounted to HRK 1.0 million (2018: HRK 21.5 million) and loans to individuals amounted to HRK 7.3 million (2018: HRK 24.5 million). The Bank realised a gain on this sale.

12. Loans from and advances to customers (continued)

b) Finance lease receivables

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

	Group 2019 HRK millions	Group 2018 HRK millions
Gross investment in finance leases	1,082	891
Deferred fee income	(3)	(2)
Unearned finance income	(64)	(60)
Net investment in finance leases	**1,015**	**829**
Impairment losses	(12)	(10)
Net investment in finance leases	**1,003**	**819**

This disclosure is illustrative since there are no irrevocable leases.

	Group 2019 HRK millions	Group 2018 HRK millions
Gross investment in finance lease, with remaining maturities		
Less than one year	369	308
More than one and less than five years	678	554
More than five years	35	29
	1.082	**891**

13. Investment securities

	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Investment securities measured at amortised cost	803	538	527	254
Investment securities at fair value through other comprehensive income	5,303	5,295	5,136	5,057
Impairment allowances	(5)	(3)	(4)	(2)
	6,101	**5,830**	**5,659**	**5,309**

	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Investment securities measured at amortised cost				
Debt securities:				
- Domestic government bonds, listed	589	401	319	123
- Foreign government bonds, listed	203	130	203	130
Accrued interest	11	7	5	1
	803	538	527	254
Impairment allowance	(5)	(3)	(4)	(2)
Total investment securities measured at amortised cost	**798**	**535**	**523**	**252**

Stage 1 and 2	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
At 1 January	**3**	**2**	**2**	**-**
Net charge to profit or loss (Note 34)	2	1	2	2
At 31 December	**5**	**3**	**4**	**2**

13. Investment securities (continued)

	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Investment securities – gross value				
Debt securities:				
- Domestic government bonds, listed	2,507	1,697	2,341	1,485
- Bonds issued by banks, listed	1,292	1,436	1,292	1,436
- Bonds issued by companies, listed	55	-	55	-
- Foreign government bonds, listed	1,168	1,505	1,168	1,505
- Treasury bills issued by the Ministry of Finance	225	623	225	598
Accrued interest	48	43	45	40
	5,295	5,304	5,126	5,064
Impairment allowance	(42)	(42)	(40)	(40)
Debt securities:	5,253	5,262	5,086	5,024
Equity securities:				
- not listed	40	28	40	28
- listed	10	5	10	5
	50	33	50	33
Total investment securities at fair value through other comprehensive income	**5,303**	**5,295**	**5,136**	**5,057**

Stage 1 and 2	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
At 1 January	**42**	**46**	**40**	**44**
Net release to profit or loss (Note 34)	-	(4)	-	(4)
At 31 December	**42**	**42**	**40**	**40**

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

Notes to the financial statements (continued)

14. Investments in subsidiaries

The Group and the Bank had the following investments in subsidiaries, all incorporated in Croatia, as at 31 December 2019 and 31 December 2018:

	Nature of business	Ownership 2019 %	Ownership 2018 %	Acquisition cost 2019 HRK millions	Impairment allowance 2019 HRK millions	Investments in subsidiaries 2019 HRK millions	Acquisition cost 2018 HRK millions	Impairment allowance 2018 HRK millions	Investments in subsidiaries 2018 HRK millions
Investment in subsidiaries									
Direct holding									
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	(9)	96
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	-	-	-	336	(297)	39
Indirect holding									
Raiffeisen Bonus d.o.o.	Insurance and re-insurance intermediary	n/p	100	-	-	-	-	-	-
Total			**n/p**	**393**	**(9)**	**384**	**729**	**(306)**	**423**

Transfer of economic unit of Raiffeisen Bonus

Based on a business decision to discontinue insurance and reinsurance distribution business as of 25 July 2019, Raiffeisen bonus d.o.o. transferred the respective business unit to Ano d.o.o. Zagreb. The total registered capital of the company is HRK 200 thousand, of which Raiffeisenbank d.d. Zagreb holds 50 per cent and the other 50 per cent is held by Raiffeisen Consulting d.o.o.

Raiffeisen bonus d.o.o. as transferor and the company Ano d.o.o. Zagreb, as acquirer, concluded the Agreement on the transfer of economic unit, which precisely defines the rights and obligations of the contracting parties, particularly in respect of future business cooperation, transfer of assets necessary for future operation, transfer of insurance distribution and IT service contracts.

The total fee for the transfer of the economic unit was HRK 350 thousand.

14. Investments in subsidiaries (continued)

Acquisition of Raiffeisen usluge d.o.o.

As part of the actions necessary to realize the intended transfer of the factoring business to the Bank, at the end of 2018, the Bank decided to terminate Raiffeisen Factoring d.o.o. as a factoring company, and initiate the process of obtaining a resolution from the Croatian Financial Services Supervisory Agency (HANFA) to revoke the factoring license. At the same time, the Bank established a new Factoring department, which is an organisational part of the Corporate Product Management.

HANFA issued its resolution on revocation of factoring licence on 22 February 2019 (Resolution). Since the Resolution was passed, the Company has changed its name from Raiffeisen Factoring d.o.o. into Raiffeisen usluge d.o.o., and changed the company objects and the factoring activity was deleted. On 9 October 2019, the Croatian National Bank granted approval to the Bank for the acquisition of Raiffeisen services d.o.o.

The business merger was based on the final financial statements as of 31 October 2019 and produced economic effect as of 1 November 2019, when activities and operations of the merged entity are considered to be undertaken by the acquirer (Bank). By fully assuming the legal position of the acquired entity, in accordance with the Companies Act and the General Tax Law (Article 24), the Bank, as a universal legal successor, also took over the tax losses of Raiffeisen usluge d.o.o. The merger of the Company with the Bank was carried at carrying amounts, therefore there were no changes in the valuation of assets and liabilities at the time of the acquisition. The effect of the merger is stated in retained earnings.

The merger was completed on 15 November 2019 with the entry of the merger in the court register of the Commercial Court in Zagreb.

Raiffeisen usluge d.o.o
Statement of financial position as at 31. October (the date preceding the date of merger)

Asset	**2019 HRK thousand**
Cash and cash equivalents	7,568
Financial asset at fair value though profit or loss	118
Placements with and loans to other banks	35,002
Loans and advances to customers	20,536
Property, plant and equipment and property investments	18
Intagible assets	17
Other asset	17
Total asset	**63,276**
Liability	**HRK thousand**
Provisions for liabilities and charges	55
Other liability	127
Total liabilities	**182**
Equity	
Share capital	336,000
Retained loss	(272,906)
Total equtiy	**63,094**
Total liability and equity	**63,276**

14. Investments in subsidiaries (continued)

Transfer of tax losses upon acquisition

Acquisition of Raiffeisen service is described in note 14.
Article 17 of the Corporate Income Tax Act sets out the conditions by which a legal successor (the Bank) obtain the right to the transfer of loss:

- Company Raiffeisen usluge d.o.o. engaged in factoring business for two tax periods prior to the status change, and
- The same factoring business continues to be performed by the Bank within the Bank's business unit Faktoring

Therefore, following the acquisition, the Bank acquired the right to claim the transferred tax loss in the amount of HRK 466.8 million. The timeframe for the unused tax loss to be claimed is as follows:

	Gross tax loss 2019	Tax benefit 2019
	Million HRK	Million HRK
31 december 2020	-	-
31 december 2021	-	-
31 december 2022	6	1
31 december 2023	458	83
31 december 2024	3	-
	467	**84**

The Bank has already used a tax relief of HRK 164 million when preparing the 2019 tax return.

15. a) Property, plant and equipment and investment property

Group

2019	Land and buildings HRK millions	Equipment HRK millions	Office furniture HRK millions	Assets in operating lease HRK millions	Investment property HRK millions	Assets under construction HRK millions	Total HRK millions
Gross carrying amount							
At 1 January 2019	916	413	74	233	93	12	1,741
Additions	30	-	-	-	-	141	171
Disposals	(39)	(48)	(9)	(102)	(25)	-	(223)
Transfer into use	6	37	3	93	-	(139)	-
At 31 December 2019	**913**	**402**	**68**	**224**	**68**	**14**	**1,689**
Accumulated depreciation and impairment allowance							
At 1 January 2019	280	306	70	95	3	-	754
Charge for the year (Note 33)	16	27	1	35	1	-	80
Disposals and transfer	(17)	(48)	(8)	(57)	-	-	(130)
At 31 December 2019	**279**	**285**	**63**	**73**	**4**	**-**	**704**
Carrying amount							
At 1 January 2019	**636**	**107**	**4**	**138**	**90**	**12**	**987**
At 31 December 2019	**634**	**117**	**5**	**151**	**64**	**14**	**985**

Of which :

	2019 HRK millions	2018 HRK millions
Property, plant and equipment	920	897
Investment property	65	90
Total	**985**	**987**

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 204 million (2018: HRK 209 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 (2018: HRK 53 million).

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

Group

2018	Land and buildings HRK millions	Equipment HRK millions	Office furniture HRK millions	Assets in operating lease HRK millions	Investment property HRK millions	Assets under construction HRK millions	Total HRK millions
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. a) Property, plant and equipment and investment property (continued)

Bank

2019	Land and buildings HRK millions	Equipment HRK millions	Office furniture HRK millions	Assets under construction HRK millions	Total HRK millions
Gross carrying amount					
At 1 January 2019	538	390	74	11	1,013
Additions	-	-	-	45	45
Disposals	(24)	(42)	(9)	-	(75)
Transfer into use	6	34	3	(43)	-
At 31 December 2019	**520**	**382**	**68**	**13**	**983**
Accumulated depreciation					
At 1 January 2019	142	294	70	-	506
Charge for the year (Note 33)	10	25	1	-	36
Disposals and transfer	(10)	(42)	(8)	-	(60)
At 31 December 2019	**142**	**277**	**63**	**-**	**482**
Carrying amount					
At 1 January 2019	**396**	**96**	**4**	**11**	**507**
At 31 December 2019	**378**	**105**	**5**	**13**	**501**

Assets under construction relates to equipment at cost of HRK 12 million (2018: HRK 11 million), and additionally in 2019 HRK 1 million relate to office furniture (2018:HRK 1 million).

There were no capitalised borrowing costs of acquisition of property, plant and equipment during the year (2018: -).

A book value of land stated under the land and buildings, not subject to amortization amounted to HRK 28 million (2018: HRK 28 million).

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

Bank

2018	**Land and buildings HRK millions**	**Equipment HRK millions**	**Office furniture HRK millions**	**Assets under construction HRK millions**	**Total HRK millions**
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					
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. b) Right of use assets

Group 2019	Buildings	Equipment	Total
	HRK millions	HRK millions	HRK millions
Gross carrying amount			
At 1 January 2019 – as previously reported	-	-	-
IFRS 16 first adoption	41	2	43
At 1 January 2019 – adjusted	41	2	43
Additons	5	1	6
At 31 December 2019	**46**	**3**	**49**
Accumulated depreciation			
At 1 January 2019	-	-	-
Charge for the year	10	2	12
At 31 December 2019	**10**	**2**	**12**
Carrying amount			
At 1 January 2019	**41**	**2**	**43**
At 31 December 2019	**36**	**1**	**37**

Notes to the financial statements (continued)

15. b) Right of use assets (continued)

Bank	Buildings	Equipment	Total
2019	**HRK millions**	**HRK millions**	**HRK millions**
Gross carrying amount			
At 1 January 2019 – as previously reported	-	-	-
IFRS 16 first adoption	194	4	198
At 1 January 2019 – adjusted	194	4	198
Additons	5	6	11
Disposals	(1)	-	(1)
At 31 December 2019	**198**	**10**	**208**
Accumulated depreciation			
At 1 January 2019	-	-	-
Charge for the year	23	3	26
At 31 December 2019	**23**	**3**	**26**
Carrying amount			
At 1 January 2019	**194**	**4**	**198**
At 31 December 2019	**175**	**7**	**182**

15. b) Right of use assets (continued)

Future minimum lease payments under operating lease

Future minimum lease payments for operating lease (disclosure is only illustrative as there are no non-cancellable lease contracts) at 31 December 2019 were as follows:

	Group 2019 Million HRK	Bank 2019 Million HRK
Up to one year	-	1
More than one and less than two years	6	6
More than two and less than three years	7	7
More than three and less than four years	4	4
More than four and less than five years	7	12
Over five years	13	152
	37	**182**

Notes to the financial statements (continued)

16. Intangible assets

Group **2019**	**Goodwill**	**Leasehold improvement**	**Software**	**Assets under construction**	**Total**
	HRK millions	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**
Gross carrying amount					
At 1 January 2019	27	213	697	8	945
Additions	-	-	-	99	99
Disposals	-	(22)	(9)	-	(31)
Transfer into use	-	13	76	(89)	-
At 31 December 2019	**27**	**204**	**764**	**18**	**1,013**
Accumulated amortisation					
At 1 January 2019	-	155	534	-	689
Charge for the year (Note 33)	-	9	38	-	47
Disposals	-	(22)	(4)	-	(26)
At 31 December 2019	**-**	**142**	**568**	**-**	**710**
Carrying amount					
At 1 January 2019	**27**	**58**	**163**	**8**	**256**
At 31 December 2019	**27**	**62**	**196**	**18**	**303**

Assets under construction mainly comprise software in the process of installation in the amount of HRK 17 million (2018: HRK 7 million).

Notes to the financial statements (continued)

16. Intangible assets (continued)

Group **2018**	**Goodwill**	**Leasehold improvement**	**Software**	**Assets under construction**	**Total**
	HRK millions	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**
Gross carrying amount					
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**

16. Intangible assets (continued)

Bank

2019	Leasehold improvement HRK millions	Software HRK millions	Assets under construction HRK millions	Total HRK millions
Gross carrying amount				
At 1 January 2019	202	644	7	853
Additions	-	-	96	96
Disposals	(14)	(6)	-	(20)
Merging of Raiffeisen usluge d.o.o.	-	3	-	3
Transfer into use	13	74	(87)	-
At 31 December 2019	**201**	**715**	**16**	**932**
Accumulated amortisation				
At 1 January 2019	146	486	-	632
Charge for the year (Note 33)	9	35	-	44
Merging of Raiffeisen usluge d.o.o.	-	3	-	3
Disposals	(15)	-	-	(15)
At 31 December 2019	**140**	**524**	**-**	**664**
Carrying amount				
At 1 January 2019	**56**	**158**	**7**	**221**
At 31 December 2019	**61**	**191**	**16**	**268**

Assets under construction mainly comprise software in the process of installation in the amount of HRK 16 million (2018: HRK 7 million).

Notes to the financial statements (continued)

16. Intangible assets (continued)

Bank **2018**	**Leasehold improvement HRK millions**	**Software HRK millions**	**Assets under construction HRK millions**	**Total HRK millions**
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**

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	
	2019 HRK millions	2018 HRK millions	2019 HRK millions	2018 HRK millions	2019 HRK millions	2018 HRK millions	2019 HRK millions	2018 HRK millions
Property, plant and equipment and investment property	-	-	(2)	(2)	-	-	-	-
Deferred fee and commission expense	-	-	(1)	(2)	1	-	-	-
Deferred fee and commission income	9	11	-	-	(2)	-	-	-
Recognition of deferred tax assets at the level of the Group	2	55	-	-	(53)	7	-	-
Recognised tax loss	54	-	-	-	54	-	-	-
Unrealised gains on financial instruments at fair value through profit or loss	19	15	-	-	4	(1)	-	-
Other provisions	30	24	-	-	6	4	-	-
Deferred tax assets/(liabilities)	**114**	**105**	**(3)**	**(4)**	**10**	**10**	**-**	**-**
Unrealised gains on financial instruments at fair value through other comprehensive income	(7)	-	-	-	-	-	(7)	7
Recognised tax asset from financial asset at fair value through other comprehensive income	-	(2)	-	-	-		2	(2)
Off set	(3)	(4)	3	4	-	-	-	-
Net deferred tax asset	**104**	**99**	**-**	**-**	**10**	**10**	**(5)**	**5**

Notes to the financial statements (continued)

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**		**t gain/(loss) in other nprehensive income**	
	2019 HRK millions	**2018 HRK millions**	**2019 HRK millions**	**2018 HRK millions**	**2019 HRK millions**	**2018 HRK millions**	**2019 HRK millions**	**2018 HRK millions**
Deferred fee and commission expense	-	-	-	(1)	1		-	-
Deferred fee and commission income	7	9	-	-	(2)	(1)	-	-
Unrealised gains on financial instruments at fair value through profit or loss	18	15	-	-	3	(1)	-	-
Impairment allowance of investments in subsidiaries	2	55	-	-	(53)	7	-	-
Recognised tax losses	54	-	-	-	54	.	-	-
Other provisions	24	19	-	-	5	2	-	-
Deferred tax assets/(liabilities)	**105**	**98**	**-**	**(1)**	**8**	**7**	**-**	**-**
Unrealised gains on financial instruments at fair value through other comprehensive income	(8)	(2)	-	-	-	-	(6)	4
Off set	-	(1)	-	1	-			-
Net deferred tax asset	**97**	**95**	**-**	**-**	**8**	**7**	**(6)**	**4**

Certain deferred tax asset from impairment allowance for investments in subsidiaries relate to investment in related companies Raiffeisen Consulting d.o.o. for which the Bank has created an impairment allowance and recognised deferred tax asset in the amount of HRK 2 million. The balance in the year 2018 is related to the impairment allowances for investments in Raiffesen factoring d.o.o.

18. Other assets

	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Accrued fees and commission	28	30	13	17
Deferred fee and commission expense	1	1	-	1
Inventory and foreclosed assets	76	60	76	60
Advances	42	48	40	49
Receivables from credit and debit cards	43	45	43	45
Receivables from operating lease	-	4	-	-
Government housing savings subsidies Receivables	1	2	-	-
Receivables from repurchase of domestic currency cash	3	9	3	9
Other	75	63	21	23
	269	**262**	**196**	**204**
Impairment allowance	(24)	(34)	(19)	(27)
	245	**228**	**177**	**177**

Notes to the financial statements (continued)

18. Other assets (continued)

Movement in impairment allowance

Group	Stage 3 HRK millions	Stage 1 and 2 HRK millions	2019 Total HRK millions	Stage 3 HRK millions	Stage 1 and 2 HRK millions	2018 Total HRK millions
At 1 January	**32**	**2**	**34**	**45**	**-**	**45**
Provisions created during the year	3	(1)	2	12	2	14
Provisions released during the year	2	-	2	(5)	-	(5)
Net charge/(release) recognised in profit or loss (Note 34)	5	(1)	4	7	2	9
Write offs	(14)	-	(14)	(20)	-	(20)
At 31 December	**23**	**1**	**24**	**32**	**2**	**34**

Bank	Stage 3 HRK millions	Stage 1 and 2 HRK millions	2019 Total HRK millions	Stage 3 HRK millions	Stage 1 and 2 HRK millions	2018 Total HRK millions
At 1 January	**25**	**2**	**27**	**36**	**-**	**36**
Provisions created during the year	3	(1)	2	11	2	13
Provisions released during the year	-	-	-	(4)	-	(4)
Net charge/(release) recognised in profit or loss (Note 34)	3	(1)	2	7	2	9
Write offs	(10)	-	(10)	(18)	-	(18)
At 31 December	**18**	**1**	**19**	**25**	**2**	**27**

Notes to the financial statements (continued)

19. Financial liabilities at fair value through profit or loss

	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Trading instruments				
Negative fair value of OTC derivative instruments	63	28	62	28
Negative fair value of OTC spot transactions	-	-	-	-
Fair value hedge:				
- Interest rate swap – hedge of the individual items	-	3	-	3
- Interest rate swap – portfolio hedge	15	7	15	7
Accrued interest	3	2	3	2
	81	**40**	**80**	**40**

20. Deposits from banks

	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK Millions
Current accounts and demand deposits				
- from parent bank	39	45	39	45
- from RBI group banks other than parent bank	1	12	133	96
- from other banks	657	375	657	375
Time deposits				
- from parent bank	161	-	161	-
- from other banks	313	157	313	157
	1,171	**589**	**1,303**	**673**

21. Deposits from companies and other similar entities

	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK Millions	Bank 2018 HRK millions
Current accounts and demand deposits	10,761	10,596	10,934	10,801
Time deposits	256	782	234	789
Accrued interest	1	6	2	7
	11,018	**11,384**	**11,170**	**11,597**

22. Deposits from individuals

	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Current accounts and demand deposits	9,237	7,748	9,237	7,748
Time deposits	6,293	7,082	5,208	6,016
Accrued interest	13	19	13	19
	15,543	**14,849**	**14,458**	**13,783**

23. Borrowings

	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
From ultimate parent bank	855	517	371	21
From other banks	512	524	172	232
From HBOR	628	761	516	641
From companies and other financial institutions	-	111	-	111
Accrued interest	-	2	-	1
Less deferred income	-	(1)	(1)	(2)
	1,995	**1,914**	**1,058**	**1,004**

Movements of outstanding borrowings

	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
At 1 January	1,914	2,572	1,004	1,237
New borrowings	11,872	8,680	11,405	8,217
Repayment of borrowings	(11,788)	(9,305)	(11,344)	(8,416)
Foreign exchange differences	(3)	(33)	(7)	(34)
At 31 December	**1,995**	**1,914**	**1,058**	**1,004**

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

24. Provisions for liabilities and charges

Group	Total	Off balance sheet exposure Stage 3	Off balance sheet exposure Stage 1 and 2	Provision for pension insurance	Provisions for unused holiday	Provision for court cases	Provisions for estimated management fee refunds
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
At 1 January 2019	**185**	**24**	**72**	**6**	**8**	**75**	**-**
Provision released during the year	(2)	-	-	(2)	-	-	-
Provision created during the year	152	5	-	-	1	125	21
(Credit)/charge recognised in profit or loss	*150*	*5*	*-*	*(2)*	*1*	*125*	*21*
At 31 December 2019	**335**	**29**	**72**	**4**	**9**	**200**	**21**

Group	Total	Off balance sheet exposure Stage 3	Off balance sheet exposure Stage 1 and 2	Provision for pension insurance	Provisions for unused holiday	Provision for court cases
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
At 1 January 2018	**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**

Notes to the financial statements (continued)

24. Provisions for liabilities and charges (continued)

Bank	Total	Off balance sheet exposure Stage 3	Off balance sheet exposure Stage 1 and 2	Provision for pension insurance	Provisions for unused holiday	Provision for court cases
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
At 1 January 2019	**169**	**24**	**72**	**6**	**6**	**61**
Provision released during the year	(2)	-	-	(2)	-	-
Provision created during the year	129	5	-	-	1	123
(Credit)/charge recognised in profit or loss	*127*	*5*	-	*(2)*	*1*	*123*
At 31 December 2019	**296**	**29**	**72**	**4**	**7**	**184**

Bank	Total	Off balance sheet exposure Stage 3	Off balance sheet exposure Stage 1 and 2	Provision for pension insurance	Provisions for unused holiday	Provision for court cases
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
At 1 January 2018	**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**

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24. Provisions for liabilities and charges (continued)

At 31 December 2019, RBA formed HRK 184.2 million of provisions for all court cases. In the first half of 2019, there was a larger number of individual lawsuits initiated, and after that, the initiation of new disputes against the bank declined.

Individual lawsuits instituted by consumers against RBA are based on the judgments of the High Commercial Court in Zagreb, in the collective proceedings of the Consumer Association against eight banks, including RBA. In June 2014, the High Commercial Court ruled in favour of the plaintiffs against seven banks, including RBA for unilaterally changing interest rates, and in favour of banks for contracting a foreign-currency index in CHF in consumer loan contracts. Based on the March 2018 Supreme Court ruling, the initiation of the collective dispute has the effect of interrupting the statutory limitation period on a claim.

In the renewed collective action of the Consumer Association against eight banks, in June 2018, the High Commercial Court ruled in favour of the plaintiffs against seven banks for contracting a foreign currency index in CHF in consumer loans and against one bank for unilaterally changing interest rates (a bank against which the same procedure was not adjudicated in June 2014). In September 2019, the Supreme Court upheld the High Commercial Court decision of June 2018, declaring null and void the foreign currency index in CHF in consumer loan agreements. In the period up to June 2023, consumers can bring individual lawsuits against the bank seeking compensation for damages on the basis of exchange rate differences, but they can no longer claim damages due to changes in interest rates.

In addition, in February 2019, the Supreme Court ruled that consumers had a legal interest in determining the nullity of certain contractual clauses of CHF-denominated loans converted to EUR, in addition to the refund of exchange rate difference based on the prescribed conversion procedure in September 2015.

In the case of individual lawsuits for compensation due to unilaterally changed interest rate and contracting of the foreign-currency index in CHF, according to the Supreme Court decision, the limitation period starts as of the date of the final decision in the collective dispute, but the final decision on the statute of limitations for claims arising from these disputes will be made by the Constitutional Court.

In the case of converted loans, the Supreme Court instituted test case to decide on the justification of the claim of nullity of the annex to loan contracts, by which the underlying contracts were converted CHF to EUR.

Provisions for consumer lawsuits against RBA in CHF loan cases have been formed individually for all disputes where the value of the claim is equal to or greater than HRK 70 thousand. Lump sum provisions have been formed for disputes with a claim of less than HRK 70 thousand. The total amount of provisions has been increased for the value of the CHF consumer credit portfolio, for which the Bank has information that lawsuits have been initiated, but the courts have not yet submitted the applications to the Bank by the end of 2019. In addition, the lump sum provisioning loss has been increased for CHF loan lawsuits that have not yet been initiated, but the bank expects them to be initiated in the future.

25. Other liabilities

	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Technical reserves for pension insurance	710	485	-	-
Liabilities in respect of credit and debit card business	129	127	129	127
Liabilities in respect of advances received for insurance premium	118	29	-	-
Liabilities to employees	57	55	51	48
Liabilities to suppliers	73	84	67	78
Deferred fee and commission income prepayments	21	18	10	8
Liabilities for prepaid loans and advances from individuals	20	18	15	12
Repurchase of domestic currency cash	3	9	3	9
Government housing savings subsidies	1	2	-	-
Other liabilities	67	49	56	33
	1,199	**876**	**331**	**315**

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 2019.

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 and 6.75% fixed.
On 18 March 2019, the Bank made an early, partial redemption of the Tier 2 Instrument in the amount of EUR 40 million (HRK 296.8 million) with the initial maturity 20 February 2021. The maturity of the subordinated loan (EUR 20 million) is 20 May 2029 at the agreed interest rate quarterly EURIBOR + 5.75%.

	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Loan	521	816	521	816
Accrued interest	3	6	3	6
	524	**822**	**524**	**822**

27. Interest income

a) Analysis by product

	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Interest income calculated using the effective interest method				
Placements with banks	8	1	9	2
Loans from and advances to customers and similar entities	244	274	217	241
Loans and advances to individuals	651	663	611	623
Financial instruments at amortised cost	22	19	6	3
	925	**957**	**843**	**869**
Other interest income				
Derivative financial instruments	6	4	6	6
Other financial assets at fair value through profit or loss	34	35	20	22
Financial assets at fair value through other comprehensive income	57	42	50	35
Financial assets measured mandatorily at fair value through profit or loss	-	-	2	2
	97	**81**	**78**	**65**
	1,022	**1,038**	**921**	**934**

b) Analysis by source

	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Companies	190	199	156	162
Individuals	651	663	611	623
State and the public sector	151	162	120	131
Banks and other financial institutions	30	14	34	18
	1,022	**1,038**	**921**	**934**

28. Interest expense

a) Analysis by product

	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Derivative financial instruments	9	10	9	10
Derivative financial instruments in fair value hedges	3	4	3	4
Deposits from banks	4	7	4	7
Deposits from companies and other similar entities	5	8	5	8
Deposits from individuals	38	50	16	27
Borrowings	24	32	15	14
Lease liabilities	3	-	3	-
Subordinated liabilities	38	54	38	54
	124	**165**	**93**	**124**

b) Analysis by recipient

	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Companies	8	8	8	8
Individuals	38	50	16	27
State and public sector	12	16	9	13
Banks and other financial institutions	66	91	60	76
	124	**165**	**93**	**124**

29. Fee and commission income

a) Analysis by product

	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Domestic payment transactions	94	106	95	108
Investment management, custody and consultancy fees	189	184	23	18
Credit cards	412	357	412	357
Foreign exchange payment transactions	77	69	77	69
Partial recharge of credit insurance costs (Note 30)	33	19	33	19
Guarantees and letter of credits	28	27	28	27
Loans and accounts administration fee	52	38	49	34
Other fees and commission income	73	53	78	53
	958	**853**	**795**	**685**

b) Analysis by recipient

	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Companies	431	419	271	254
Individuals	152	113	148	109
State and public sector	14	10	14	10
Banks and other financial institutions	361	311	362	312
	958	**853**	**795**	**685**

30. Fee and commission expense

a) Analysis by product

	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Credit card related charges	369	320	369	320
Domestic payment transactions	22	21	22	21
Partially rechargeable credit insurance costs (Note 29)	48	27	48	27
Other fees and commission expense	18	22	15	18
	457	**390**	**454**	**386**

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

b) Analysis by recipient

	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Companies	421	354	418	352
Banks and other financial institutions	36	36	36	34
	457	**390**	**454**	**386**

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

	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Gains less losses from trading financial instruments				
- Debt securities	(1)	(9)	(1)	(9)
- Equity securities	2	-	2	-
- Derivative financial instruments	(13)	34	(4)	41
	(12)	*25*	*(3)*	*32*
Gains less losses from financial assets designated at fair value through profit or loss				
Realised gain/(loss) on disposal of:				
- debt securities	6	1	9	1
- Investments in investment funds managed by related and third parties	1	-	-	-
Unrealised gain/(loss) on:				
- debt securities	25	(3)	1	(3)
- equity securities	-	(1)	-	-
	32	*(3)*	*10*	*(2)*
Realised net gain on financial assets at fair value through other comprehensive income	6	7	6	7
Net gain / (loss) on financial instruments at fair value	**26**	**29**	**13**	**37**
Gains less losses arising from trading in foreign currencies	148	124	150	124
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	(37)	99	(35)	82
- net loss on foreign exchange translation of assets and liabilities with foreign currency clause	29	(105)	24	(96)
Total foreign exchange differences	*(8)*	*(6)*	*(11)*	*(14)*
Net gain from foreign currency trading and foreign exchange differences from translation of monetary assets and liabilities	**140**	**118**	**139**	**110**
Losses from hedge accounting, net	**(3)**	**-**	**(3)**	**-**
	163	**147**	**149**	**147**

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

	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Rental income from operating leases	45	55	-	-
Service and construction contract revenue	1	1	-	-
Premium on pension insurance contracts	386	198	-	-
Dividend from subsidiaries	-	-	85	79
Gain on sale of assets under operating leases	-	13	-	-
Other income	61	54	27	18
	493	**321**	**112**	**97**

33. Operating expenses

	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Personnel expenses	423	428	365	369
Repayment of pension contract	171	151	-	-
Depreciation of property, plant and equipment (note 15a)	80	89	36	38
Depreciation of right of use assets (note 15b)	12	-	26	-
IT expenses	86	87	86	87
Increase in technical reserve for pension insurance	236	52	-	-
Office space expenses	34	56	50	76
Legal, advisory and audit expenses	60	61	64	65
Deposit insurance expense	41	40	38	37
Amortisation of intangible assets (note 16)	47	45	44	43
Communication expenses	28	27	28	27
Advertising, PR and promotional expenses	32	27	32	27
Resolution fund fee	14	17	14	17
REGOS, HANFA expenses	35	29	-	-
Loss on disposal of assets under operating lease	2	-	-	-
Impairment of investment in related company	-	-	-	39
Other administrative expenses	144	124	57	59
	1,445	**1,233**	**840**	**884**

33. Operating expenses (continued)

Personnel expenses of the Group include HRK 65 million (2018: 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 2019 the Group had 2,019 employees (2018: 2,121 employees).

Personnel expenses of the Bank include HRK 56 million (2018: 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 2019 the Bank had 1,794 employees (2018: 1,885 employees).

Legal, advisory and audit expenses include fee for the statutory audit of the annual financial statements in the amount of HRK 0.5 million (2018: HRK 0.4 million) and other fees in the amount of HRK 0.4 million (2018: HRK 0.4 million).

34. Impairment losses

	Group 2019 HRK Millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Cash and current accounts with banks (Note 8)	(3)	4	(3)	3
Obligatory reserve with the Croatian National Bank (Note 9)	1	-	1	-
Placements with and loans to other banks (Note 11)	(8)	5	(8)	5
Loans from and advances to customers (Note 12a)	30	206	33	198
Investment securities at amortised cost (Note 13)	2	1	2	2
Investment securities at fair value through other comprehensive income (Note 13)	-	(4)	-	(4)
Other assets (Note 18)	4	9	2	9
	26	**221**	**27**	**213**
Hereof:				
Stage 3	(25)	251	(27)	243
Stage 1 and Stage 2	51	(30)	54	(30)
	26	**221**	**27**	**213**

Notes to the financial statements (continued)

35. Income tax expense

	Note	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Recognised in profit or loss					
- Current tax expense		(23)	(55)	(6)	(27)
- Deferred taxes		10	10	8	7
Income tax expense		**(13)**	**(45)**	**2**	**(20)**
Reconciliation of income tax expense at 18%		-		-	
(Loss)/profit before tax		**434**	**328**	**436**	**239**
Income tax at 18% (2017:18%)		(78)	(59)	(78)	(43)
Adjustment of income tax from the previous year in the current year		(6)	(2)	(6)	(2)
Non-deductible expenses		(16)	(7)	(16)	(9)
Effect of adoption of the Decision on classification		-	19	-	16
Tax incentives and tax-exempt income		3	4	18	18
Transfer of tax loss resulted from merger		84	-	84	-
Income tax expense		**(13)**	**(45)**	**2**	**(20)**
Effective income tax rate		**2.99%**	**13.72%**	**n/p**	**8.37%**

Deferred tax assets

During 2019 subsidiaries gross tax losses amounted to had HRK 304 million (2018: HRK 461 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:

	Group Gross tax losses 2019 HRK millions	Group Tax benefit 2019 HRK millions	Group Gross tax losses 2018 HRK millions	Group Tax benefit 2018 HRK millions
31 December 2019	-	-	-	-
31 December 2020	-	-	-	-
31 December 2021	-	-	-	-
31 December 2022	-	-	6	1
31 December 2023	303	54	455	82
31 December 2024	1	-	-	-
	304	**54**	**461**	**83**

35. Income tax expense (continued)

	Bank Gross tax losses 2019 HRK millions	Bank Tax benefit 2019 HRK millions	Bank Gross tax losses 2018 HRK millions	Bank Tax benefit 2018 HRK millions
31 December 2019	-	-	-	-
31 December 2020	-	-	-	-
31 December 2021	-	-	-	-
31 December 2022	-	-	-	-
31 December 2023	303	54	-	-
31 December 2024	-	-	-	-
	303	**54**	**-**	**-**

36. Share capital

Group and Bank	**2019 Total of ordinary shares HRK millions**	**2018 Total share HRK millions**
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.

	2019 Ordinary Shares %	**20187 Ordinary Shares %**
Raiffeisen SEE Region Holding Gmbh	100	100
	100	**100**

37. Additional TIER 1 capital

On 4 March 2019, the Bank issued a EUR 40 million (HRK 297 million) bond which, according to the decision of the CNB, fulfils the conditions for allocation into Additional Tier 1 capital. The bond was issued without maturity date at a floating interest rate of 12M EURIBOR + 9.25%, contracted with zero floor, and is eligible for classification as equity instrument. The Bank will present this instrument in the financial statements within other equity instruments at the nominal HRK value, at the exchange rate on 8 March 2019, which is the date of recognition of the instrument as Additional Tier 1 capital of the Bank.

38. 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.

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.

39. Proposed dividends

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

At a meeting held on 16 May 2019, a dividend of HRK 60.34 per ordinary share, totalling HRK 219 million was proposed and paid in May 2019. From retained earning was paid 135 million HRK in August 2019.

During 2019 the subsidiaries proposed and paid HRK 78 million from retained earnings (2018: HRK 79 million).

The Bank will allocate the net profit realized in 2019, less the allocation of EUR 4.7 million in the Additional Tier 1 (AT1) instrument, into Common Equity Tier 1 capital items.

Notes to the financial statements (continued)

40.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.

41.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 2019	Group 2018	Bank 2019	Bank 2018
Net profit for the year attributable to owners of the parent (HRK)	420,964,135	282,438,245	438,260,333	218,509,594
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	**116.24**	**77.99**	**121.02**	**60.34**

42.Cash and cash equivalents

	Notes	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Cash in hand	8	1,242	1,049	1,242	1,049
Gyro account with the Croatian National Bank	8	3,821	4,194	3,821	4,194
Current accounts with other banks	8	94	98	77	89
Placements with and loans to other banks with original maturity up to three months		534	1,544	509	1,519
Impairment allowance		(36)	(47)	(35)	(46)
		5,655	**6,838**	**5,614**	**6,805**

43.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:

	Notes	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Gyro account with the Croatian National Bank	8	3,821	4,194	3,821	4,194
Obligatory reserve with the Croatian National Bank	9	1,985	1,924	1,985	1,924
Government bonds, direct exposure		4,119	2,703	3,129	1,856
Treasury bills issued by the Ministry of Finance		320	1,073	245	978
Loans from and advances to customers		767	194	767	193
Provision for Stage 1 and 2		(78)	(53)	(75)	(52)
Borrowings		(628)	(761)	(516)	(641)
Deposits from the Republic of Croatia		(40)	(55)	(40)	(55)
		10,266	**9,219**	**9,316**	**8,397**

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 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Loans from and advances to customers guaranteed by the State	348	202	348	202
Guarantees, letters of credit and undrawn lending facilities	21	9	21	9
	369	**211**	**369**	**211**

The total net direct and indirect on and off-balance-sheet exposure to Republic of Croatia represents 23% of the total assets and off-balance-sheet exposure of the Group (2018: 22%) and 23% of the total assets and off-balance-sheet exposure of the Bank (2018: 21%).

44. 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	Fair value of underlying assets HRK millions	Carrying amount of corresponding liabilities HRK millions	Repurchase date	Repurchase price HRK millions
2019				
Securities at fair value through profit or loss	338	355	January 2020	356
2018				
Securities at fair value through profit or loss	113	111	May 2019	111

Borrowings from European bank for reconstruction and development in the amount of HRK 126 million (2018: HRK 157 million) are secured with securities in the amount of HRK 120 million (2018: HRK 201 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 and Bank	Fair value of underlying assets HRK millions	Carrying amount of corresponding assets HRK millions	Repurchase date	Repurchase price HRK millions
Loans from and advances to customers				
2019	258	232	January February 2020	232
2018	187	170	January 2019	170

Notes to the financial statements (continued)

45. Commitments and contingent liabilities

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

	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Guarantees	2,791	2,526	2,791	2,526
Letters of credit	39	83	39	83
Undrawn lending facilities	2,507	1,771	2,293	1,581
Other risk off-balance sheet items	3,588	3,422	3,593	3,423
	8,925	**7,802**	**8,716**	**7,613**

At 31 December 2019, 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 101 million (2018: HRK 96 million), which are included in provisions for liabilities and charges (Note 24).

46. 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 2019, the total assets under custody held by the Group on behalf of customers were HRK 3,248 million (2018: HRK 4,886 million).

In addition, at 31 December 2019 total assets of investment and pension funds under Group management amounted to HRK 38,123 million (2018: HRK 33,069 million).

During 2019 the Group made income in the amount of HRK 175 million (2018: HRK 175 million) of fees on trust activities provided to companies, banks and individuals, and management of investment and pension funds.
As at 31 December 2019 the Group and the Bank managed loans on behalf of third parties as follows:

	2019 HRK millions	2018 HRK millions
Assets		
- Loans to companies	214	215
Total assets	**214**	**215**
Liabilities		
- Financial institutions	214	215
Total liabilities	**214**	**215**

Notes to the financial statements (continued)

47. 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	Notional amount		Fair value	
	Assets	**Liabilities**	**Assets**	**Liabilities**
2019	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**
Trading derivative instruments				
- FX forward contracts – OTC	5,872	4,609	43	26
- Cross currency swap contracts – OTC	-	68	-	2
- Interest rate swap contracts - OTC	360	819	8	35
	6,232	**5,496**	**51**	**63**
Unsettled trading with currencies – OTC	**996**	**721**	**-**	**-**
Hedging derivative instruments				
- Interest rate swap contracts - OTC				
Hedge of individual items	360	-	1	-
Portfolio hedge	-	199	-	15
	360	**199**	**1**	**15**

Group	Notional amount		Fair value	
	Assets	**Liabilities**	**Assets**	**Liabilities**
2018	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**
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**

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.

Notes to the financial statements (continued)

47. Derivative instruments and foreign currency trading (continued)

Bank	Notional amount		Fair value	
	Assets	Liabilities	Liabilities	Assets
2019	HRK millions	HRK millions	HRK millions	HRK millions
Trading derivative instruments				
- FX forward contracts – OTC	6,043	4,530	43	25
- Cross currency swap contracts – OTC	-	68	-	2
- Interest rate swap contracts - OTC	434	819	18	35
	6,477	**5,417**	**61**	**62**
Unsettled trading with currencies – OTC	996	721	-	-
Hedging derivative instruments				
- Interest rate swap contracts - OTC				
Hedge of individual items	360	-	1	-
Portfolio hedge	-	199	-	15
	360	**199**	**1**	**15**

Bank	Notional amount		Fair value	
	Assets	Liabilities	Liabilitie s	Assets
2018	HRK millions	HRK millions	HRK millions	HRK millions
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**

Notes to the financial statements (continued)

47. Derivative instruments and foreign currency trading (continued)

Fair value hedge accounting – interest rate risk

	Average fixed interest rate		Notional amount		Fair value Assets (Liabilities)	
	2019	2018	2019	2018	2019	2018
	%	%	HRK millions	HRK millions	HRK millions	HRK millions
Hedged item – loan to customers – corporate – hedge of individual items						
With maturity up to 5 years	0.2	1.06	298	123	(1)	3
With the maturity over 5 years	2.9	-	62	-	-	-
Hedging instrument - interest rate swap, maturity from 1 to 5 years, hedge of individual items						
With maturity up to 5 years	(0.38)	0.25	298	120	1	(3)
With the maturity over 5 years	(0.17)	-	62	-	-	-
Hedged item – loan to customers – individuals – portfolio hedge	0.97	0.96	198	205	14	6
Hedging instrument - interest rate swap, portfolio hedge						
With maturity up to 5 years	0.60	0.25	62	198	(2)	(7)
With the maturity over 5 years	1.12	-	136	-	(13)	-

The effectiveness ratio of hedge of individual items for 2019 was 99.94% (2018: 99.70%). The effectiveness ratio of portfolio hedge for 2019 was 102.78% (2018: 108.81%).

47. Derivative instruments and foreign currency trading (continued)

Fair value hedge accounting – interest rate risk (continued)

2019 Bank/Group

Line in the statement of financial position that include hedging instrument	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
	HRK millions	HRK millions	
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	(15)	-	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)	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
HRK millions		HRK millions	
(1)	Loan to customers – corporate – hedge of individual items	(6)	-
14	Loan to customers – individuals – portfolio hedge	3	-

2018 Bank/Group

Line in the statement of financial position that include hedging instrument	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
	HRK millions	HRK millions	
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

47. Derivative instruments and foreign currency trading (continued)

Fair value hedge accounting – interest rate risk (continued)

Accumulated amount of fair value hedge adjustment On the hedged item included in the carrying amount of the hedged item	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
Assets / (Liabilities)			
HRK millions		HRK millions	
3	Loan to customers – corporate – hedge of individual items	(1)	-
6	Loan to customers – individuals – portfolio hedge	6	-

48. Related party transactions

Raiffeisenbank Austria d.d. and its subsidiaries are directly owned by Raiffeisen Bank International AG (“the RBI”), a company incorporated 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 key 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 Group members.

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:

	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Statement of total comprehensive income				
Interest, fee and commission income				
- Raiffeisen Leasing d.o.o.	-	-	3	4
- Raiffeisen stambena štedionica d.d.	-	-	5	4
- Raiffeisen Consulting d.o.o.	-	-	6	5
- Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondom d.d.	-	-	2	2
- Raiffeisen mirovinsko osiguravajuće društvo d.d.	-	-	-	1
- Raiffeisen Invest d.o.o.	-	-	6	2
- RBI	8	17	8	17
Total	**8**	**17**	**30**	**35**
Interest, fee and commission expense				
- RBI	(73)	(76)	(66)	(66)
- RBI Group	(3)	(14)	(3)	(14)
Total	**(76)**	**(90)**	**(69)**	**(80)**

48. Related party transactions (continued)

	Group	Group	Bank	Bank
	2019	2018	2019	2018
	HRK millions	HRK millions	HRK millions	HRK millions
Trading and other income				
- Raiffeisen Leasing d.o.o.	-	-	2	-
- Raiffeisen stambena štedionica d.d.	-	-	11	4
- Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.	-	-	80	79
- Raiffeisen mirovinsko osiguravajuće društvo d.d.	-	-	1	1
- Raiffeisen Invest d.o.o.	-	-	8	1
- Raiffeisen Consulting d.o.o.	-	-	-	2
- Raiffeisen usluge d.o.o.	-	-	-	6
- RBI	(62)	28	(62)	28
Total	**(62)**	**28**	**40**	**121**
Operating expenses				
- Raiffeisen Leasing d.o.o.	-	-	(3)	(2)
- Raiffeisen Consulting d.o.o.	-	-	(31)	(30)
- Raiffeisen usluge d.o.o.	-	-	-	(30)
- RBI	(41)	(38)	(41)	(38)
- RBI Group	(1)	(4)	(1)	(4)
Total	**(42)**	**(42)**	**(76)**	**(104)**
Assets				
Current accounts and placements with banks				
- Raiffeisen stambena štedionica d.d.	-	-	37	36
- RBI	71	38	71	38
- RBI Group	5	1	5	1
Total	**76**	**39**	**113**	**75**
Loans from and advances to customers				
- Raiffeisen Consulting d.o.o.	-	-	143	163
- Raiffeisen Leasing d.o.o.	-	-	200	15
Total	**-**	**-**	**343**	**178**
Accrued income and other assets				
- Raiffeisen Leasing d.o.o.	-	-	1	5
- Raiffeisen mirovinsko osiguravajuće društvo d.d.	-	-	10	-
- Raiffeisen stambena štedionica d.d.	-	-	1	2
- RBI	28	1	28	1
Total	**28**	**1**	**40**	**8**

48. Related party transactions (continued)

	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Liabilities				
Deposits				
- Raiffeisen Leasing d.o.o.	-	-	60	51
- Raiffeisen stambena štedionica d.d.	-	-	131	116
- Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.	-	-	80	81
- Raiffeisen mirovinsko osiguravajuće društvo d.d.	-	-	35	27
- Raiffeisen usluge d.o.o.	-	-	-	41
- Raiffeisen Invest d.o.o.	-	-	8	15
- RBI	227	45	227	45
- RBI Group	9	11	9	11
Total	**236**	**56**	**550**	**387**
Borrowings and subordinated liabilities				
- RBI	1,380	1,338	896	842
Total	**1,380**	**1,338**	**896**	**842**
Accrued and other liabilities				
- Raiffeisen Leasing d.o.o.	-	-	10	-
- Raiffeisen Consulting d.o.o.	-	-	140	1
- RBI	89	45	89	45
- RBI Group	2	3	2	3
Total	**91**	**48**	**241**	**49**
Off-balance sheet exposure				
Derivative instruments				
- Raiffeisen Leasing d.o.o.	-	-	63	56
- Raiffeisen stambena štedionica d.d.	-	-	74	74
- Raiffeisen mirovinsko osiguravajuće društvo d.d.	-	-	123	4
- RBI	7,600	4,260	7,600	4,260
Total	**7,600**	**4,260**	**7,860**	**4,394**

48. Related party transactions (continued)

2019	Exposure HRK millions	Liabilities HRK millions	Income HRK millions	Expense HRK millions
Group				
Key management personnel				
Short-term benefits (salaries and fees)	-	18	-	40
Long-term benefits	-	-	-	5
Loans and advances	18	-	1	-
Deposits	-	22	-	-
Total	**18**	**40**	**1**	**45**
Bank				
Key management personnel				
Short-term benefits (salaries and fees)	-	15	-	20
Long-term benefits	-	-	-	3
Loans and advances	-	-	-	-
Deposits	3	6	-	-
Total	**3**	**21**	**-**	**23**

2018	Exposure HRK millions	Liabilities HRK millions	Income HRK millions	Expense HRK millions
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**

Notes to the financial statements (continued)

49. Risk management

This note 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. The Group developed methodologies and models for operational risk management.

Credit risk

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:

	Notes	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Current accounts with banks	8	3,883	4,257	3,867	4,249
Obligatory reserve with the Croatian National Bank	9	1,969	1,909	1,969	1,909
Financial assets at fair value through profit or loss	10	1,433	1,470	676	1,014
Placements with, and loans and advances to banks	11	554	1,532	541	1,543
Loans and advances to customers	12	19,867	17,463	18,456	16,099
Debt securities					
at fair value through other comprehensive income	13	5,253	5,262	5,086	5,024
at amortized cost	13	798	535	523	252
Other asset	18	58	50	36	46
		33,815	**32,478**	**31,154**	**30,136**

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

Contingent liabilities and commitments	Note	Group 2019 HRK millions	Group 2018 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
Guarantees	45	2,791	2,526	2,791	2,526
Letters of credit		39	83	39	83
Undrawn lending facilities		2,507	1,771	2,293	1,581
Other risk off-balance sheet items	45	3,588	3,422	3,593	3,423
		8,925	**7,802**	**8,716**	**7,613**
Impairment allowance		(101)	**(96)**	(101)	**(96)**
		8,824	**7,706**	**8,615**	**7,517**

The items are shown net of impairment allowances, so that in some cases it will not be possible to relate them directly to the notes in question.

Notes to the financial statements (continued)

49. Risk management (continued)

Credit risk (continued)

Quality analysis of credit portfolio

Group 2019	Stage 1 HRK millions	Stage 2 HRK millions	Stage 3 HRK millions	POCI HRK millions	Total HRK millions
Balance sheet exposure					
Low risk	18,216	2,071	-	1	20,288
Medium risk	5,189	3,737	-	1	8,927
High risk	650	437	-	1	1,088
Default	-	-	762	237	999
Without rating	3,458	106	144	17	3,725
Balance sheet impairment allowance	(199)	(196)	(675)	(142)	(1,212)
Carrying amount	**27,314**	**6,155**	**231**	**115**	**33,815**

Bank 2019	Stage 1 HRK millions	Stage 2 HRK millions	Stage 3 HRK millions	POCI HRK millions	Total HRK millions
Balance sheet exposure					
Low risk	17,210	2,066	-	1	19,277
Medium risk	4,748	3,721	-	1	8,470
High risk	543	403	-	1	947
Default	-	-	709	236	945
Without rating	2,452	93	125	17	2,687
Balance sheet impairment allowance	(187)	(194)	(650)	(141)	(1,172)
Carrying amount	**24,766**	**6,089**	**184**	**115**	**31,154**

Group 2019	Stage 1 HRK millions	Stage 2 HRK millions	Stage 3 HRK millions	POCI HRK millions	Total HRK millions
Off - balance sheet exposure					
Low risk	3,244	75	-	-	3,319
Medium risk	3,272	109	-	-	3,381
High risk	246	30	-	-	276
Default	-	-	69	2	71
Without rating	1,870	2	4	2	1,878
Balance sheet impairment allowance	(71)	(1)	(28)	(1)	(101)
Carrying amount	**8,561**	**215**	**45**	**3**	**8,824**

49. Risk management (continued)

Credit risk (continued)

Quality analysis of credit portfolio (continued)

Bank 2019	Stage 1 HRK millions	Stage 2 HRK millions	Stage 3 HRK millions	POCI HRK millions	Total HRK millions
Off - balance sheet exposure					
Low risk	3,196	61	-	-	3,257
Medium risk	3,133	109	-	-	3,242
High risk	245	30	-	-	275
Default	-	-	69	2	71
Without rating	1,863	2	4	2	1,871
Balance sheet impairment allowance	(70)	(2)	(28)	(1)	(101)
Carrying amount	**8,367**	**200**	**45**	**3**	**8,615**

Comparative information for 31 December 2018 have not been presented, as it is not practical.

Collateral valuation

The Bank accepts real estate, movable property, deposits and guarantees as collateral to secure risk exposures. Real estate and movable property must be appraised by a certified court appraiser in accordance with the Valuation Act and other mandatory regulations. Value appraisal for the Bank is made by Raiffeisen Consulting, the Bank's real estate appraisal company, and its external contractors.
The collaterals undergo a valuation process within the bank, performed by specially trained staff of the Credit Control and Collateral Management. In addition to the collateral valuation process, eligibility is determined for each security instrument in accordance with local and group regulations. All collaterals are subject to revaluation.
The frequency of collateral valuation depends on the type of collateral:

Type of collateral	Collateral evaluation period
Financial collateral	at least every six months
Commercial property	Yearly
Residential property	Yearly
Claims	monthly
Other	yearly

The revaluation method depends on the type of collateral and the exposure. For real estate which secures exposures of natural persons, statistical revaluation is performed, and for real estate which secures exposures of legal entities an internal desk top check is performed.
Movable property is revalued on a straight line basis according to the remaining lifecycle of the movable property.

49. Risk management (continued)

Credit risk (continued)

The table below show the market value of collateral at 31 December 2019:

Type of collateral	Market value of collateral as at 31 December 2019 Million HRK	
	Group	Bank
Commercial property	5,841	5,774
Cash deposits	263	261
Securities	179	179
Guarantess and similar instruments	2,513	2,512
Insurance policies	1	1
Funds	2	2
Movable property	1,412	612
Other types of collateral	-	-
Residential property	9,670	8,335
Total	**19,881**	**17,676**

The table shows the exposure of the Bank and the Group as at 31 December 2019. years that were rated by external rating agencies (Standard & Poors).

External rating	Balance and off-balance exposure Million HRK	
	Group	Bank
A	15	15
A-	406	376
A+	455	455
AA	263	254
AA-	547	547
AA+	791	791
AAA	324	285
B	1	1
B+	99	98
BB+	93	93
BBB	10	-
BBB-	5,303	4,235
BBB+	310	310
Unrated	34,022	32,309
Total	**42,639**	**39,769**

Source: Standard&Poor's

49. Risk management (continued)

Credit risk (continued)

Quality analysis of credit portfolio (continued)

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.
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Group

2019	Stage 1 HRK millions	Stage 2 HRK millions	Stage 3 HRK millions	POCI HRK millions	Total HRK millions
Balance sheet exposure					
Without delay	26,797	5,158	60	66	32,081
Delay <30 days	517	920	52	43	1,532
Delay >30 days	-	77	119	6	202
Total	**27,314**	**6,155**	**231**	**115**	**33,815**

Bank

2019	Stage 1 HRK millions	Stage 2 HRK millions	Stage 3 HRK millions	POCI HRK millions	Total HRK millions
Balance sheet exposure					
Without delay	24,332	5,114	37	66	29,549
Delay <30 days	434	919	50	43	1,446
Delay >30 days	-	56	97	6	159
Total	**24,766**	**6,089**	**184**	**115**	**31,154**

Comparative information for 31 December 2018 have not been presented, as it is not practical.

Notes to the financial statements (continued)

49. Risk management (continued)

Credit risk (continued)

The development of the Group's and the Bank's balance sheet exposure to credit risk as at 31 December is presented below:

	Group	Stages as at 31 December 2019				
		1	2	3	POCI	Total
Stages as at 31 December 2018	1	19,716	2,288	53	1	**22,058**
	2	420	1,664	58	-	**2,142**
	3	22	122	98	-	**242**
	POCI	-	-	-	52	**52**
	New exposures	7,156	2,081	22	62	**9,321**
	Total	**27,314**	**6,155**	**231**	**115**	**33,815**

	Bank	Stages as at 31 December 2019				
		1	2	3	POCI	Total
Stages as at 31 December 2018	1	17,851	2,255	43	1	**20,150**
	2	399	1,649	56	-	**2,104**
	3	18	120	69	-	**207**
	POCI	-	-	-	52	**52**
	New exposures	6,498	2,065	16	62	**8,641**
	Total	**24,766**	**6,089**	**184**	**115**	**31,154**

The table gives an overview of the exposure status at 31.12.2019 by phases of financial assets, and depending on the distribution of the portfolio by phases of financial assets as at 31 December 2018. years. For private individuals and micro segment the increased portfolio migration from Phase 1 on 31.12.2018 to Phase 2 on 31.12.2019. is mainly due to the Bank's proactive approach to credit risk management, described in detail in the Forward-looking approach to the cash loan portfolio.

The migration of portfolios by stages of financial assets of companies and similar entities has no major deviations compared to 2018, the trend of migration is stable.

49.Risk management (continued)

Credit risk (continued)

Change in default methodology
Retail:

In 2019, the Bank implemented changes in the default identification methodology, and the largest change in respect of materiality of debt, in the retail segment, relates to:

i. The new days past due counter which is used to determine default: materiality threshold of past due amount exceeds HRK 750 and exceeds 1 percent of balance-sheet exposure on the facility level for private individuals and on the obligor level for Micro and SME customers. Unlike the previous DPD counter, in the new methodology the number of days past due cannot be reduced when partial payments are made, and the counter can only be reset to zero when one of the materiality thresholds is not met. The new methodology has introduced a pulling effect, which is relevant for the private individual segment, where default is determined on a facility level –if the client's exposure in default exceeds 20% of this obligor's total exposure, all other exposures of that individual should be also considered defaulted
ii. Introduction of new default indicators based on external input – significant debt indicator (based on FINA execution information) and loss of regular income indicator. Both indicators trigger the default only if the client is past due more than 60 days in the period of 3 months since the Bank recorded the external information.
iii. Changes in the end of default rules

One-time effect of the default definition change in retail is the increase in non-performing portfolio by EUR 5.8 million, with the one-time reduction in loss allowance by EUR 1.3 million. The reduction in impairment allowance is a result of the improved structure of the defaulted portfolio, which affects the coverage of Stage 3 assets.

Non-retail:

In non-retail segment, the Bank implemented the new default definition for non-retail customers as of 30 November 2019. The major change is in counting days past due as one of the default indicators (D8 indicator - overdue payment). The materiality threshold is the debt past due amount of over EUR 500 (HRK 3,750) and more than 1 percent of the client's total balance sheet exposure.
The Bank is obliged to calculate DPD in the non-retail segment according to both the new and the old definition for 12 months.

Forward-looking approach for cash loan portfolio
In line with the observations of the Croatian National Bank, which, based on an analysis of the entire banking sector, estimated that a longer-term cash loan portfolio could lead to an increased amount of non-performing exposures in times of adverse macroeconomic developments or increased interest rates, the Bank applied a proactive approach and decided to monitor those loans more closely.
Thus, in 2019, the Bank, on the basis of an internal methodology, in accordance with the requirements of IFRS 9, which is partly incorporated in the Decision on the Classification of Exposures into Risk Categories and the Method of Determining Credit Losses, identified part of the longer-term cash loan portfolio approved in earlier periods, classified them as Stage 2 assets based on a holistic approach and applied lifetime expected credit loss calculations.
The Bank plans to closely monitor the development and quality of the identified portion of the portfolio over the coming years, perform regular review at least annually, and, depending on the results of the analysis, decide on whether the portfolio should continue to be classified in Stage 2.

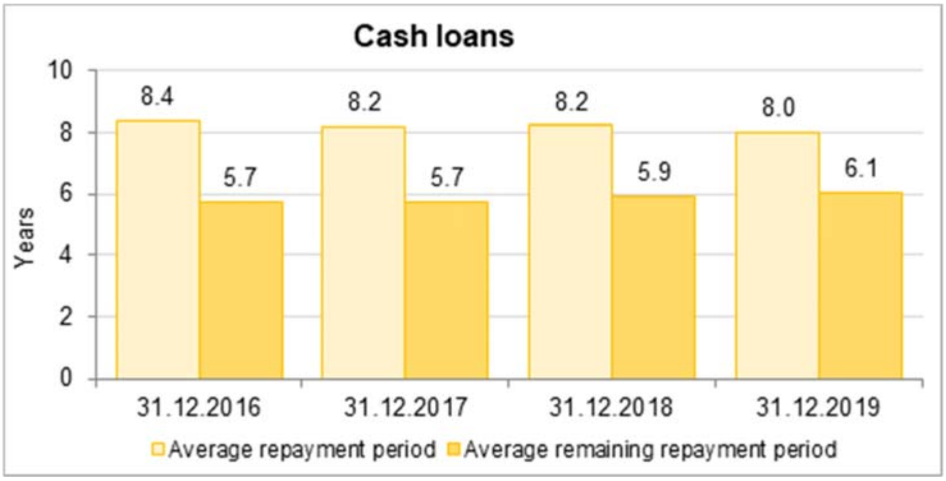
	Group **HRK million**	**Bank** **HRK Million**
Gross carryng amount	5,386	5,386
Allowance impairment	(299)	(299)
Carrying amount	**5,087**	**5,087**

Notes to the financial statements (continued)

49. Risk management (continued)

Credit risk (continued)

Changes in average repayment period and average remaining repayment period of cash loans:



An overview of restructured balance sheet exposures by portfolio segment and by restructuring status for the year 2018 and 2019 is given below:

Group

Amount of balance sheet exposures with forbearance measures						
			31.12.2019			31.12.2018
HRK Million	perfoming exposures with forbearance measures	non-performing exposures with forbearance measures	Total	perfoming exposures with forbearance measures	non-performing exposures with forbearance measures	Total
Individuals	108	53	161	137	52	189
Companies and similar entities	130	46	176	230	96	326
Total	**238**	**99**	**337**	**367**	**148**	**515**

Bank

Amount of balance sheet exposures with forbearance measures						
			31.12.2019			31.12.2018
HRK Million	perfoming exposures with forbearance measures	non-performing exposures with forbearance measures	Total	perfoming exposures with forbearance measures	non-performing exposures with forbearance measures	Total
Individuals	114	56	170	140	59	199
Companies and similar entities	132	55	187	230	163	393
Total	**246**	**111**	**357**	**370**	**222**	**592**

Notes to the financial statements (continued)

49. Risk management (continued)

Credit risk (continued)

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

2019 LTV	Group HRK millions	Bank HRK millions
<40%	649	549
40%-60%	786	718
60%-80%	1,209	1,089
80%-90%	737	633
>90%	1,248	1,056
n/a	336	148
Total	**4,965**	**4,193**

2018 LTV	Group HRK millions	Bank HRK millions
<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
Total	**4,842**	**4,120**

49. Risk management (continued)

Credit risk (continued)

The value of received collaterals securing housing loans is based on the estimated value of the real estate on the loan approval date. The collateral value is updated once a year in a revaluation process. For defaulted customers, the collateral value is based on an assessment made when the facility is transferred within the scope of competence of the Collections and Workout.

Loans to corporates

Credit quality depends on the creditworthiness of the borrower. For specific facilities and borrowers, the Bank negotiates additional first-class collaterals. First-class collaterals accepted by the Bank include cash deposit pledge, property pledge, pledge on movable property, guarantees and other forms of first-class collaterals.

The Bank performs collateral revaluation on a regular basis. Cash deposits and securities are revalued on a daily basis, and revaluation of movable property and real estate is performed annually. For higher-risk customers (pre-workout status), collateral is controlled more frequently. For defaulted accounts, the value of the underlying collateral is based on the most recent valuation which was performed when the competence for collaterals was transferred to the organisational unit Collections and Workout, and the collateral value is monitored on a quarterly basis.

Methodology for Calculating Expected Credit Losses (ECL)

Exposures are allocated in three stages depending on the default status and deterioration of credit risk of the exposure compared to the assessment when the exposure was originated, on the basis of qualitative and quantitative criteria.

Defaulted exposures are automatically allocated to Stage 3. Stage 2 assets include exposures that have significantly deteriorated in credit quality since initial recognition, and Stage 1 includes new exposures and assets where the credit risk has not significantly deteriorated since initial recognition.

Significant deterioration of credit risk

When determining whether the risk of default has significantly increased, the Bank uses reasonable and supportable information that is relevant and available. This includes quantitative and qualitative information based on the historical-based analysis and expert credit risk assessment, and includes forward looking information.

The quantitative criterion or quantitative materiality threshold relates to the change in the estimate of lifetime probability of default of the credit exposure at the reporting date, compared to the estimate on the exposure originating date. If the difference in the estimation of probability of default exceeds the materiality threshold, the material increase in credit risk is determined for that asset, which is consequently classified in 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, adjusted for the status of a macroeconomic position. The estimate of the increased risk is based on the level of credit risk existing at the time of approval of the credit exposure. 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 includes information that can be obtained from internal rating models used as inputs in rating. Since all information is contained 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, regulatory definitions of forbearance and non-performing exposure, and asset being more than 30 days past due.

49. Risk management (continued)

Credit risk (continued)

In retail exposures, the estimated probability of default is based on the scoring models used by the Bank in managing credit risk, as well as statistical models and statistical estimates, depending on the type of exposure and including the impact of expected macroeconomic developments. Qualitative criteria include identification of forbearance indicators, holistic access indicators (based on Retail Credit Risk expert assessment and approved by competent Management Board member), asset being more than 30 days past due, default on the customer's other exposures (as the default definition applies on the product level).

Macroeconomic factors

The impact of macroeconomic developments on the calculation of impairment is expressed through macroeconomic models for specific risk parameters. Macroeconomic models are applied to probability of default and loss given default. During the development of the model, several indicators were observed, and in the applied retail model, changes in the unemployment rate and changes in gross domestic product relative to the previous year were taken into account. The macroeconomic models are reviewed at least once a year.

Calculation of expected credit losses

Calculation of expected credit losses is based on estimated probabilities of default with all of the above elements, estimated loss given default and balance and off-balance sheet exposures.

For Stage 1 assets 12-month expected credit loss is calculated, by applying the 12-month probability of default. For Stage 2 assets lifetime expected credit loss is recognised, by applying lifetime probability of default.

Loss given default for retail exposures is also calculated by applying statistical models or statistical estimates depending on the exposure type. Statistical models and statistical estimates are reviewed and revalued at least once a year.

Default

The Bank considers that default occurs:

- If a forced restructuring of the existing obligations arises when the counterparty is unlikely to pay its credit obligations arising from the contract under which the credit institution is exposed to credit risk, to the credit institution, to the parent undertaking of the credit institution or to any of its subsidiaries, without recourse by the institution to actions such as realising security (if the obligation is secured);
- when the counterparty is more than 90 days past due on any material credit obligation to the credit institution, to the parent undertaking of the credit institution or to any of its subsidiaries
- in case of restructuring of existing debt

When determining the required impairment allowance for defaulted customers, expected credit losses are estimated. The amount of expected losses is determined as the difference between the carrying amount and the present value of the discounted future cash flows by applying the original effective interest rate. When calculating impairment for non-retail clients, at least 2 scenarios are used. For exposure to the private individuals, the default definition on individual product level is applied. The Bank shall duly take into account the specific requirements of the Decision on the classification of exposures.

Notes to the financial statements (continued)

49. Risk management (continued)

Credit risk (continued)

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 transacts with counterparties of good credit standing, and obtains collateral when appropriate.

The Group's primary exposure to credit risk arises from its loans and advances. The amount of credit exposure is presented at the carrying amounts of the assets on the statement of financial position. In addition, the Group is exposed to credit risk on off-balance exposure on the basis of undrawn loan commitments and issued guarantees – refer to Note 43.

Exposure to credit risk is managed in accordance with the Group's policies. Credit exposures across portfolios and individual risk groups are reviewed on a regular basis. Breaches of set limits are reported to appropriate authority. Any substantial increases in credit exposures are authorized by the Credit Committee. The Credit Committee and Problem Loan Committee monitor changes in the creditworthiness of borrowers.
In case the analysis shows that the creditworthiness of the client is not satisfactory, a workout officer calculates and recommends creation of individual loan loss provisions. The Problem Loan Committee makes a decision individual loan loss provisions. Credit risk assessment is monitored on an ongoing basis to enable timely identification of impairments in the credit portfolio.

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 and reported to the Problem Loan Committee. However, in case loss is recognised on an exposure, the client has to be recorded in the Default Data Base (DDB) and immediately transferred to the Workout department.

According to local methodology prescribed by the CNB, the Group and Bank classify exposures into the following risk categories (rating):
Risk category A – exposures that are fully recoverable
Risk category B – placements that are partially recoverable

- Risk sub-category B-1 - impairment of at least 1% but not more than 30% of principal amount of individual exposure
- Risk sub-category B-2 - impairment of over 30%, but not more than 70% of principal amount of individual exposure
- Risk sub-category B-3 – impairment of more than 70% but not more 100% of each placement

Risk category C – placements that are fully unrecoverable - 100% impairment

The Bank uses an early warning system for identifying potentially non-performing accounts in non-retail segment. The application serves for detecting any changes in the risk level of a particular customer. Monitoring is performed on a monthly basis. Once an early warning is triggered, the signal value and root causes are analysed. Depending on the risk grade of an individual customer (1-4), the customer remains within the Corporate banking division (risk grade 1 - regular customer and risk grade 2 - pre-workout customer) or is transferred to the Workout division (risk grade 3 - early workout, risk grade 4 - late workout or collection by legal action).

The early warning system is also used for identification of potential non-performing accounts in the Micro segment too. 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 risk) and appropriate actions are taken on the basis of the customer's profile.

The Credit Committee has the authority to approve exposures to risk grade 1 and 2 customers. A Credit Committee decision can be reversed only by the Supervisory Board. The Problem Loan Committee has the authority for limit and customer reviews for risk grade 3 and 4 and for determination of individual loan loss provisions.

Notes to the financial statements (continued)
49. Risk management (continued)

Credit risk (continued)

The Group's credit policies contain retail and corporate customer lending guidelines. The credit policies define the criteria for financing target industries, portfolio structures in line with customer rating, type of collateral, etc. The Group has internal policies in place to regulate acceptable types of collateral and their valuation. The most frequently provided collaterals comprise real estate, cash deposits, movable property, inventories, listed securities and other assets.

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:

	2019 Group		2018 Group		2019 Bank		2018 Bank	
	Balance sheet exposure HRK millions	Off-balance sheet exposure HRK millions	Balance sheet exposure HRK millions	Off-balance sheet exposure HRK millions	Balance sheet exposure HRK millions	Off-balance sheet exposure HRK millions	Balance sheet exposure HRK millions	Off-balance sheet exposure HRK millions
Geographic region:								
Croatia	31,533	8,873	29,025	7,765	28,956	8,664	26,593	7,576
Rest of EU	2,099	38	3,568	28	2,012	38	3,546	28
Non EU	1,397	14	1,281	9	1,358	14	1,281	9
Total	**35,029**	**8,925**	**33,874**	**7,802**	**32,326**	**8,716**	**31,420**	**7,613**
Impairment allowance	**(1,214)**	**(101)**	**(1,333)**	**(96)**	**(1,172)**	**(101)**	**(1,284)**	**(96)**
	33,815	**8,824**	**32,541**	**7,706**	**31,154**	**8,615**	**30,136**	**7,517**

Notes to the financial statements (continued)

49. Risk management (continued)

Credit risk (continued)

Concentration of risk and maximum exposure to credit risk (continued)

Concentration of credit risk by industry:

	Group 2019 %	Group 2018 %	Bank 2019 %	Bank 2018 %
Individuals	32	29	32	29
Financial services	18	22	19	23
Trade	10	9	9	8
Central and local government	15	10	13	8
Construction	5	4	5	5
Food and drink industry	3	3	3	3
Non-metal industry	4	4	4	4
Electronics	3	2	3	3
Wood and paper industry	1	1	1	1
Craft and services	7	13	8	14
Other business activities	2	3	3	2
Total credit risk	**100**	**100**	**100**	**100**

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

Rating	2019 Group Total exposure	Impairment allowances	Net exposure	2018 Group Total exposure	Impairment allowances	Net exposure
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
A	42,727	474	42,253	40,062	411	39,651
B1	153	23	130	384	67	317
B2	210	98	112	250	132	118
B3	194	168	26	226	190	36
C	409	409	-	551	551	-
POCI	261	143	118	203	78	125
Total	**43,954**	**1,315**	**42,639**	**41,676**	**1,429**	**40,247**

Rating	2019 Bank Total exposure	Impairment allowances	Net exposure	2018 Bank Total exposure	Impairment allowances	Net exposure
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
A	39,873	460	39,413	37,499	397	37,102
B1	122	19	103	341	61	280
B2	201	93	108	239	127	112
B3	190	163	27	219	184	35
C	396	396	-	533	533	-
POCI	260	142	118	202	78	124
Total	**41,042**	**1,273**	**39,769**	**39,033**	**1,380**	**37,653**

49.Risk management (continued)

Liquidity risk

One of the more important functions that banks have in the financial market is maturity transformation. The need for maturity transformation arises as a consequence of the fact that depositors want quick and short-term access to their deposited funds, while, on the other hand, the Bank's clients want access to financing through long-term loans. This results in a continuing reporting mismatch between inflows and outflows that the Bank generates over certain time bands (liquidity gap). In order to manage these mismatches, or gaps, the Bank enters into transactions with other members of the financial market, taking into account not only the contractual maturity of assets and liabilities but also their experiential mismatches. Liquidity gaps result in the Bank being exposed to liquidity risk, which arises in the form of a risk that the Bank will not be able to finance (refinance) its positions on acceptable terms at appropriate maturities and in the form of a risk that the Bank will not be able to effectively liquidate its assets within the appropriate timeframe.

The Group continuously assesses liquidity risk by identifying and monitoring changes in maturity gaps between inflows and outflows and changes in available funding required to achieve defined business targets and strategic objectives. In addition, the Group maintains a portfolio of liquid assets which can be used as a source of new funding if required. Liquidity risk is managed by aligning assets and liabilities, setting up market and credit limits, achieving appropriate liquidity ratios, maintaining sufficient liquidity buffer, conducting stress tests based on different scenarios and liquidity contingency plan.
These measures, estimates and analyses are regularly discussed at Asset and Liability Committee meetings.

The Group has aligned its business operations with the legal provisions governing liquidity risk and with group and internal regulations governing liquidity reserve maintenance.

Special consideration is given to Basel III liquidity risk measures:

- Liquidity Coverage Ratio (LCR) - a liquidity coverage ratio over a 30-day stress period, which is monitored on a daily basis and reported to the regulator on a monthly basis,
- Net Stable Funding Ratio (NSFR) - a structural indicator of liquidity risk exposure, which is calculated and reported quarterly

LCR and NSFR were maintained above regulatory and internal limits (defined internal limits are: LCR 110% ; NSFR 100%)

Million HRK	**31.12.2019.**	**31.12.2018.**
Liquidity coverage ratio (LCR)	**139%**	**183%**
Liquidity buffer	9,088.9	9,227.6
Net cash outflows	6,517.2	5,039.7

In addition, the Bank reports its liquidity risk exposure profile in supplementary liquidity report (ALMM) on a monthly basis.

For internal purposes, the Group additionally measures and monitors liquidity risk through a system of measures aimed at assessing the Bank's liquidity position and its ability to meet future obligations, both in normal day-to-day activities (going concern scenario) and in crises and times of stress (time-to-wall). Stress test assessment is performed on a daily basis at the Group level to determine the required level of liquidity reserves.

49.Risk management (continued)

Liquidity risk (continued)

Short-term liquidity gap is analysed through excess liquidity and the survival horizon under stress. The analysis covers all balance sheet and off-balance sheet items.
The cumulative liquidity gap between assets and liabilities across time bands is managed by a system of limits set on an individual and consolidated basis.

	2019			2018		
EUR million	**7 days**	**30 days**	**1 year**	**7 days**	**30 days**	**1 year**
Liquidity gap (GC)	715	762	911	1,002	1,162	1,049

Additional control and restriction of liquidity risk exposure is achieved by monitoring the target loan-to-deposit ratios for certain members of the Group, taking into account Basel III requirements.

Special consideration is given to defining the Group's funding plans that include a wide variety of funding structures to mitigate funding liquidity risks. Funds are raised using a broad range of instruments including deposits, borrowings, and share capital. Different funding sources are coordinated and optimized.

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Notes to the financial statements (continued)

49. Risk management (continued)

Maturity analysis

The residual maturity of the Group's assets and liabilities and equity as at 31 December 2019 and 31 December 2018 is presented in the tables below:

The items with an undefined maturity date are included in the category over 5 years, the reserve requirement 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 a large part of these deposits has a much longer maturity and that maturity mismatches in the category up to one year would have been eliminated if their maturity was presented in accordance with expected rather than contractual maturity, and liquid financial assets at fair value through profit or loss and through other comprehensive income for which there is an active secondary market in the category up to one month.

Group 2019	**Up to 1 month HRK millions**	**1-3 months HRK millions**	**3-12 months HRK millions**	**1-5 years HRK millions**	**Over 5 years HRK millions**	**Total HRK Millions**
Assets						
Cash and current accounts with banks	5,125	-	-	-	-	5,125
Obligatory reserve with the Croatian National Bank	1,969	-	-	-	-	1,969
Financial assets at fair value through profit or loss	664	4	829	-	-	1,497
Placements with and loans to other banks	95	454	-	5	-	554
Loans from and advances to customers	1,566	1,120	2,943	9,019	5,219	19,867
Investment securities	259	645	1,282	3,828	87	6,101
Property, plant and equipment and investment property	-	-	-	-	985	985
Right of use assets	-	-	-	24	13	37
Intangible assets	-	-	-	-	303	303
Deferred tax assets	-	-	-	104	-	104
Tax prepayment	-	-	6	51	-	57
Other assets	114	3	32	40	56	245
Total assets	**9,792**	**2,226**	**5,092**	**13,071**	**6,663**	**36,844**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	80	-	1	-	-	81
Deposits from banks	1,171	-	-	-	-	1,171
Deposits from companies and other similar entities	10,871	20	58	54	15	11,018
Deposits from individuals	9,945	1,143	3,062	1,347	46	15,543
Borrowings	341	109	440	951	154	1,995
Provisions for liabilities and charges	1	-	72	256	4	333
Lease liabilities	-	-	2	21	14	37
Other liabilities	459	20	66	219	437	1,201
Subordinated liabilities	3	-	-	372	149	524
Equity attributable to the equity holders of the parent	-	-	-	-	4,941	4,941
Total liabilities and equity	**22,871**	**1,292**	**3,701**	**3,220**	**5,760**	**36,844**
Maturity gap	**(13,079)**	**934**	**1,391**	**9,851**	**903**	**-**

Notes to the financial statements (continued)

49.Risk management (continued)

Maturity analysis (continued)

Group 2018	Up to 1 month HRK millions	1-3 months HRK millions	3-12 months HRK millions	1-5 years HRK millions	Over 5 years HRK millions	Total HRK Millions
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	1,563	682	2,606	7,754	4,858	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	**11,740**	**1,894**	**4,107**	**11,226**	**6,198**	**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	**(8,697)**	**187**	**35**	**7,560**	**915**	**-**

49. Risk management (continued)

Maturity analysis (continued)

Bank **2019**	**Up to 1 month HRK millions**	**1-3 months HRK millions**	**3-12 months HRK millions**	**1-5 years HRK millions**	**Over 5 years HRK millions**	**Total HRK Millions**
Assets						
Cash and current accounts with banks	5,109	-	-	-	-	5,109
Obligatory reserve with the Croatian National Bank	1,969	-	-	-	-	1,969
Financial assets at fair value through profit or loss	568	1	113	-	-	682
Placements with and loans to other banks	81	423	-	-	37	541
Loans from and advances to customers	1,511	1,050	2,706	8,275	4,914	18,456
Investment securities	254	449	1,283	3,622	51	5,659
Investments in subsidiaries	-	-	-	-	384	384
Property, plant and equipment and investment property	-	-	-	-	501	501
Right of use assets	-	-	-	29	153	182
Intangible assets	-	-	-	-	268	268
Deferred tax assets	-	-	-	97	-	97
Tax prepayment	-	-	-	51	-	51
Other assets	101	-	-	20	56	177
Total assets	**9,593**	**1,923**	**4,102**	**12,094**	**6,364**	**34,076**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	80	-	-	-	-	80
Deposits from banks	1,303	-	-	-	-	1,303
Deposits from companies and other similar entities	11,043	22	54	36	15	11,170
Deposits from individuals	9,924	1,098	2,782	608	46	14,458
Borrowings	360	31	131	392	144	1,058
Provisions for liabilities and charges	-	-	36	256	4	296
Lease liabilities	-	-	-	29	153	182
Other liabilities	307	-	9	15	-	331
Subordinated liabilities	3	-	-	372	149	524
Equity	-	-	-	-	4,674	4,674
Total liabilities and equity	**23,020**	**1,151**	**3,012**	**1,708**	**5,185**	**34,076**
Maturity gap	**(13,427)**	**772**	**1,090**	**10,386**	**1,179**	**-**

Notes to the financial statements (continued)

49. Risk management (continued)

Maturity analysis (continued)

Bank 2018	Up to 1 month HRK millions	1-3 months HRK millions	3-12 months HRK millions	1-5 years HRK millions	Over 5 years HRK millions	Total HRK millions
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 assets and tax prepayment	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**	**-**

Notes to the financial statements (continued)

49. Risk management (continued)

Contractual maturity analysis

The table below provides an analysis of the expected outflows of financial liabilities as of 31December 2019.

Group 2019	Up to 1 month HRK millions	1-3 months HRK millions	3-12 months HRK millions	1-5 years HRK millions	Over 5 years HRK millions	Total HRK millions	Carrying amount HRK millions
Liabililties							
Financial liabilities at fair value through profit or loss	81	-	3	1	-	85	81
Deposits from banks	1,171	-	-	-	-	1,171	1,171
Deposits from companies and other similar entities	10,871	50	58	63	85	11,127	11,018
Deposits from individuals	10,061	1,146	3,069	1,380	49	15,705	15,543
Borrowings	341	112	454	975	158	2,040	1,995
Lease liabilities	-	-	1	21	16	38	37
Subordinated liabilities	3	10	28	430	205	676	524
Total liabilities	**22,528**	**1,318**	**3,613**	**2,870**	**513**	**30,842**	**30,369**

Bank 2019	Up to 1 month HRK millions	1-3 months HRK millions	3-12 months HRK millions	1-5 years HRK millions	Over 5 years HRK millions	Total HRK millions	Carrying amount HRK millions
Liabilities							
Financial liabilities at fair value through profit or loss	81	-	2	-	-	83	80
Deposits from banks	1,303	-	-	-	-	1,303	1,303
Deposits from companies and other similar entities	11,043	52	54	45	85	11,279	11,170
Deposits from individuals	10,040	1,101	2,783	615	49	14,588	14,458
Borrowings	360	31	131	393	144	1,059	1,058
Lease liabilities	-	-	-	29	171	200	182
Subordinated liabilities	3	9	26	425	205	668	524
Total liabilities	**22,830**	**1,193**	**2,996**	**1,507**	**654**	**29,180**	**28,775**

49. Risk management (continued)

Financial assets available for future financing

Assets are considered encumbered if they have been pledged or if they are subject to any form of arrangement to secure, collateralise or enhance any on-balance or off-balance sheet transaction from which the Group cannot freely withdraw (for instance, assets pledged for funding purposes). Assets pledged that are subject to any restrictions in withdrawal, such as assets that require preapproval before withdrawal, or replacement by other assets, are considered as encumbered.

The Group's unencumbered assets are balance sheet assets which have not been:

- pledged or
- transferred without being derecognised or
- otherwise encumbered.

The Group's total encumbered and unencumbered assets recognised in the statement of financial position at 31 December 2019 are presented in the following table.

Group

2019	Carrying amount of encumbered asset HRK millios	Carrying amount of non-encumbered asset HRK millions	Total HRK millions
Asset			
Cash and current accounts with banks	1,006	4,119	5,125
Obligatory reserve with the Croatian National Bank	1,969	-	1,969
Placements with and loans to other banks	62	492	554
Investment securities	821	5,280	6,101
Loans and advances to customers	-	19,867	19,867
Other assets	-	3,228	3,228
Total assets	**3,858**	**32,986**	**36,844**

Bank

2019	Carrying amount of encumbered asset HRK millios	Carrying amount of non-encumbered asset HRK millions	Total HRK millions
Asset			
Cash and current accounts with banks	1,006	4,103	5,109
Obligatory reserve with the Croatian National Bank	1,969	-	1,969
Placements with and loans to other banks	62	479	541
Investment securities	821	4,838	5,659
Loans and advances to customers	-	18,456	18,456
Other assets	-	2,342	2,342
Total assets	**3,858**	**30,218**	**34,076**

49.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 the laws, decisions and directives of domestic and foreign regulators and with prescribed internal policies and procedures which are regularly reviewed by risk management units.

RBA Group, being part of 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 within the market risk management system:

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

Value-at-risk (VaR) is the most important instrument for measuring market risks in normal situation. It expresses the maximum expected loss that the bank is willing to accept at a certain point of time. The VaR risk measure is a statistically defined estimate of the maximum amount of potential loss on the existing portfolio, to a predefined level of confidence level and for a certain holding period until positions could be closed. The Group uses 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 presents 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 back-testing and by distributional test which is performed once a year.

- Stress test

Value-at-risk number expresses the maximum loss that will not be exceeded at a predefined confidence level under normal market conditions, but does not provide additional information on potential impact that extraordinary market conditions may have on the portfolio of the Bank/Group. So, in order to take these events into account as well, the Group carries out daily stress tests. In this way potential crisis situations and their impact on the current positions are simulated. Stress testing is used to assess the effect of market risk on the Group's portfolio, total positions and limits in extraordinary conditions (market shocks).

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

- Position limits and limit to measures of sensitivity (to changes in exchange rates, interest rates, etc.)

The use of position limits eliminates concentration in normal business conditions. Position limits are the main tool to manage risk in extreme and illiquid market conditions.

49.Risk management (continued)

Market risk (continued)

- Stop-loss limits

These limits ensure traders' discipline in measuring proprietary trading positions and substantially limit 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 9 as FVTOCI, HFT_FVTPL or FVTPL_DES.
The limit resets to zero at the beginning of each calendar year, as the loss has to be calculated versus the maximum profit in the year-to-date period

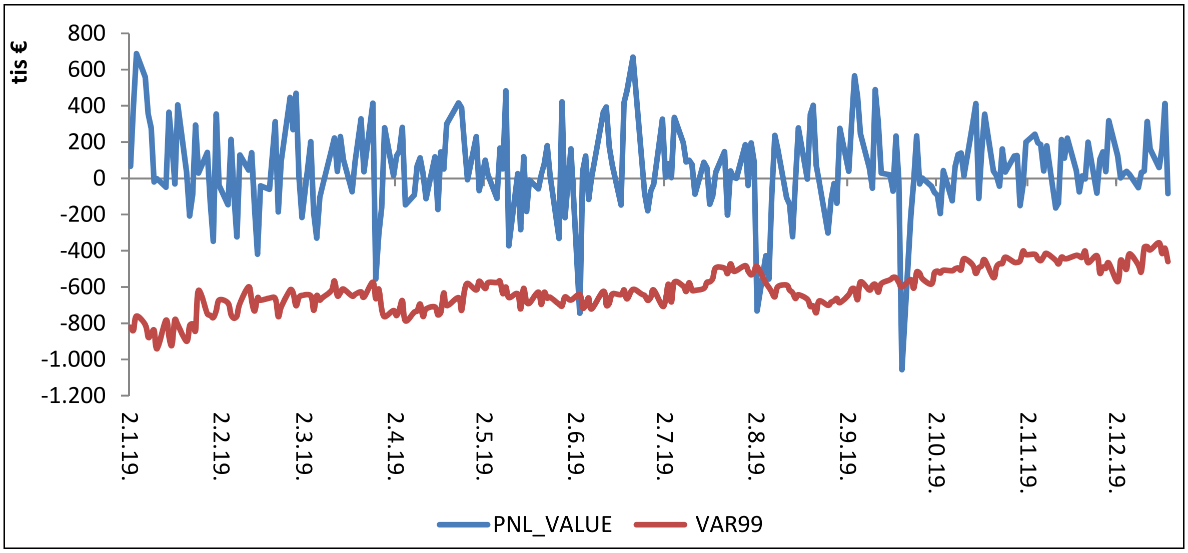
The following table presents the Value-at-Risk for 2019 and 2018:

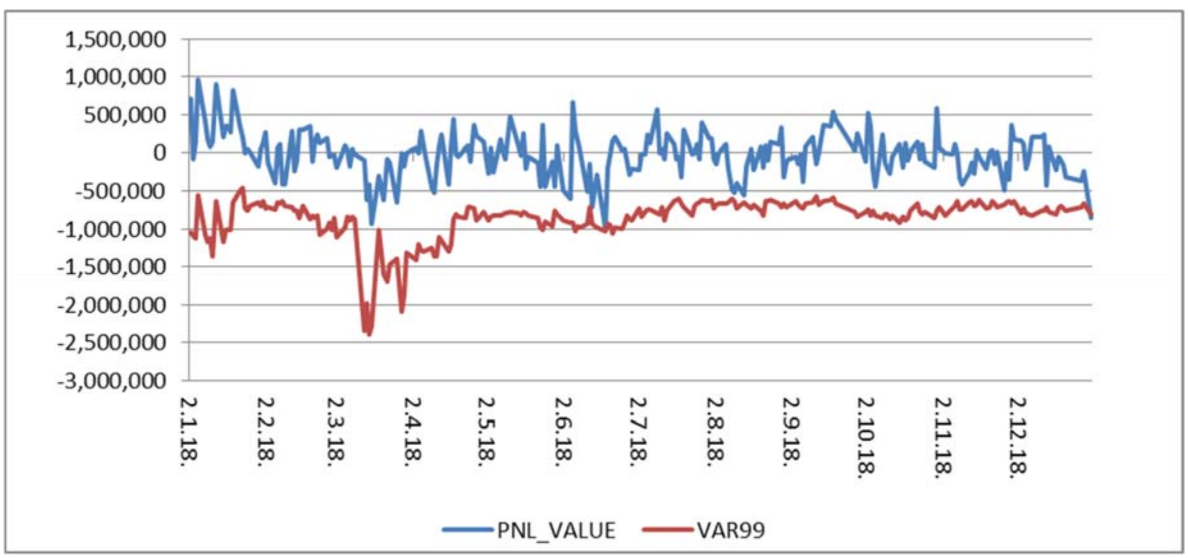
HRK millions	December 2019	December 2018	Average	min	max
Interest rate risk					
- trading book	0.65	0.76	0.57	0.32	1.08
- banking book	0.54	2.21	1.70	0.54	3.26
Currency risk	0.67	1.16	0.81	0.12	2.93
Credit Spread Risk	2.97	4.59	3.66	0.94	5.13
Price risk	0.14	0.16	0.13	0.10	0.17
Total VaR	3.46	6.00	4.52	2.65	6.98

Notes to the financial statements (continued)

49.Risk management (continued)

Market risk (continued)





49.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 2019 three backtesting breaches 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 2019 and 2018:

BPV / Currency in HRK	EUR	USD	HRK
31 December 2019	10,406.94	(10,738.16)	(239,046.09)
Average	12,498.59	(16,006.64)	(233,603.07)
Minimum	(4,334.63)	(32,892.71)	(267,249.92)
Maximum	121,462.89	9,965.65	(115,565.47)

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)

Total BPV for trading book for 31 December 2019 was HRK 260.7 thousand in respect to 31 December 2018 when it was HRK 279.9 thousand.

49.Risk management (continued)

Interest rate risk (continued)

Interest rate risk in non-trading book

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 2019 and 2018:

BPV / Currency in HRK	HRK	EUR	USD
31 December 2019	(514,434.24)	(319,364.64)	(50,353.26)
Average	(333,801.73)	65,725.89	(21,792.14)
Minimum	(563,502.86)	(336,147.06)	(112,453.03)
Maximum	(417,901.47)	1,297,591.89	13,113.44

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

Total BPV for non - trading book for 31 December 2019 amounted to HRK 887.81 thousand in respect to 31 December 2018 when it was HRK 798.45 thousand.

Interest rate risk in the banking book is measured not only by using the Value-at-Risk method but also by traditional tools such as interest rate gap analysis. In measuring interest rate risk exposures through sensitivity analysis of economic value, the bank applies the methodology set out in the Decision on Governance System, which requires measurement of the effect of a parallel shift of reference curves by a standard regulatory 200 basis points shock.

In HRK	31 December 2019	31 December 2018
EUR	70,140	18,531
HRK	82,062	97,295
Other	1,196	(6,732)
Total	153,398	109,094
%	3.60%	2.70%

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 thousand HRK	31 December 2019	31 December 2018
Net interest income	151,900	116,884

The measurement of the impact on net interest income and the valuation of the Bank's interest rate book instrument is carried out in predefined scenarios in accordance with the EBA guidelines, and additional scenarios defined by the Group's chief macroeconomists. Interest sensitivity analysis (ISI) is performed for the Bank, Raiffeisen stambenu štedionicu d.d. and Raiffeisen Leasing d.o.o. and measure the total result against a stable scenario in a 24-month period.

49.Risk management (continued)

Interest rate risk (continued)

The impact on net interest income is limited by the amount of regulatory capital. In calculating the effect of changes in interest rates, the Bank also includes effects based on models developed for positions without contractual maturity, and the effects of modelled impact of embedded options of asset and liability positions, such as loan prepayments and early withdrawals of fixed term deposits.

The impact of the 200 basis points shift on net interest income at 31 December 2019 and 31 December 2018 is presented in the following table

ISI result as at 31 December 2019

HRK millions	+200 bp		-200 bp	
	HRK	FCY	HRK	FCY
Effect on net interest income	72.72	(96.28)	(326.51)	(172.35)
Valuation effect	(32.54)	(0.64)	33.27	(2.05)
Total	40.18	(96.92)	(293.24)	(174.40)

ISI result as at 31 December 2018

HRK millions	+200 bp		-200 bp	
	HRK	FCY	HRK	FCY
Effect on net interest income	77.58	(32.16)	(370.88)	(206.23)
Valuation effect	(42.74)	56.64	45.52	(67.85)
Total	34.84	24.48	(325.36)	(274.08)

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.

49.Risk management (continued)

Currency analysis

Group 2019	EUR HRK millions	EUR linked HRK millions	CHF HRK millions	CHF linked HRK millions	Other foreign currencies HRK millions	Total foreign currencies HRK millions	Domestic currency HRK millions	Total currencies HRK millions
Assets								
Cash and current accounts with banks	132	-	24	-	89	245	4,880	5,125
Obligatory reserve with the Croatian National Bank	-	-	-	-	-	-	1,969	1,969
Financial assets at fair value through profit or loss	356	224	1	-	152	733	764	1,497
Placements with and loans to other banks	83	-	210	-	211	504	50	554
Loans from and advances to customers	2,639	7,494	-	9	139	10,281	9,586	19,867
Investment securities	1,936	1,430	-	-	1,339	4,705	1,396	6,101
Property, plant and equipment and investment property	-	-	-	-	-	-	985	985
Right of use assets	-	1	-	-	-	1	36	37
Intangible assets	-	-	-	-	-	-	303	303
Deferred tax assets	-	-	-	-	-	-	104	104
Tax prepayment	-	-	-	-	-	-	57	57
Other assets	7	13	1	-	2	23	222	245
Total assets	**5,153**	**9,162**	**236**	**9**	**1,932**	**16,492**	**20,352**	**36,844**
Liabilities and equity								
Financial liabilities at fair value through profit or loss	53	-	-	-	15	68	13	81
Deposits from banks	446	-	11	-	136	593	578	1,171
Deposits from companies and other similar entities	2,919	31	15	-	467	3,432	7,586	11,018
Deposits from individuals	8,586	854	318	-	1,403	11,161	4,382	15,543
Borrowings	991	387	-	-	177	1,555	440	1,995
Provisions for liabilities and charges	27	4	-	-	2	33	300	333
Lease liability	-	37	-	-	-	37	-	37
Other liabilities	362	12	-	-	2	376	825	1,201
Subordinated liabilities	488	-	-	-	-	488	36	524
Equity attributable to the equity holders of the parent	-	-	-	-	-	-	4,941	4,941
Total liabilities and equity	**13,872**	**1,325**	**344**	**-**	**2,202**	**17,743**	**19,101**	**36,844**
Currency gap	**(8,719)**	**7,837**	**(108)**	**9**	**(270)**	**(1,251)**	**1,251**	**-**

Notes to the financial statements (continued)

49.Risk management (continued)

Currency analysis (continued)

Group 2018	EUR HRK millions	EUR linked HRK millions	CHF HRK millions	CHF linked HRK millions	Other foreign currencies HRK millions	Total foreign currencies HRK millions	Domestic currency HRK millions	Total currencies HRK millions
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	2,838	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
Tax liability	-	-	-	-	-	-	-	-
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**	**-**

49.Risk management (continued)

Currency analysis (continued)

Bank 2019	EUR HRK millions	EUR linked HRK millions	CHF HRK millions	CHF linked HRK millions	Other foreign currencies HRK millions	Total foreign currencies HRK millions	Domestic currency HRK millions	Total currencies HRK millions
Assets								
Cash and current accounts with banks	132	-	24	-	89	245	4,864	5,109
Obligatory reserve with the Croatian National Bank	-	-	-	-	-	-	1,969	1,969
Financial assets at fair value through profit or loss	47	124	1	-	61	233	449	682
Placements with and loans to other banks	83	-	210	-	211	504	37	541
Investment securities	2,639	6,164	-	9	139	8,951	9,505	18,456
Loans from and advances to customers	1,882	1,194	-	-	1,339	4,415	1,244	5,659
Investments in subsidiaries	-	-	-	-	-	-	384	384
Property, plant and equipment and investment property	-	-	-	-	-	-	501	501
Right of use assets	-	-	-	-	-	-	182	182
Intangible assets	-	-	-	-	-	-	268	268
Deferred tax assets	-	-	-	-	-	-	97	97
Tax prepayment	-	-	-	-	-	-	51	51
Other assets	7	-	1	-	2	10	167	177
Total assets	**4,790**	**7,482**	**236**	**9**	**1,841**	**14,358**	**19,718**	**34,076**
Liabilities and equity								
Financial liabilities at fair value through profit or loss	52	-	-	-	15	67	13	80
Deposits from banks	462	-	11	-	136	609	694	1,303
Deposits from companies and other similar entities	2,922	-	15	-	467	3,404	7,766	11,170
Deposits from individuals	8,586	2	318	-	1,403	10,309	4,149	14,458
Borrowings	366	187	-	-	177	730	328	1,058
Provisions for liabilities and charges	27	4	-	-	2	33	263	296
Lease liability	-	41	-	-	-	41	141	182
Other liabilities	39	6	-	-	2	47	284	331
Subordinated liabilities	524	-	-	-	-	524	-	524
Equity	-	-	-	-	-	-	4,674	4,674
Total liabilities and equity	**12,978**	**240**	**344**	**-**	**2,202**	**15,764**	**18,312**	**34,076**
Currency gap	**(8,188)**	**7,242**	**(108)**	**9**	**(361)**	**(1,406)**	**1,406**	**-**

Notes to the financial statements (continued)

49.Risk management (continued)

Currency analysis (continued)

Bank **2018**	**EUR HRK millions**	**EUR linked HRK millions**	**CHF HRK millions**	**CHF linked HRK millions**	**Other foreign currencies HRK millions**	**Total foreign currencies HRK millions**	**Domestic currency HRK millions**	**Total currencies HRK millions**
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 assets and tax prepayment	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**	**-**

49.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.

49. Risk management (continued)

Operational risk

Risk identification, measurement, management and reporting (continued)

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.

50. 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.

Notes to the financial statements (continued)

50.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 2019 HRK millions	**Carrying amount**		**Fair value**		**Total fair value**
		Level 1	**Level 2**	**Level 3**	
Cash and current accounts with banks	5,125	-	-	5,125	5,125
Obligatory reserve with the Croatian National Bank	1,969	-	-	1,969	1,969
Financial assets at fair value through profit or loss					
Financial assets for trading					
Debt securities	500	500	-	-	500
Equity securities	6	6	-	-	6
Derivative financial assets	52	-	52	-	52
Financial assets designated at fair value through profit or loss					
Debt securities	880	676	204	-	880
Equity securities	1	1	-	-	1
Investment in investment funds	57	57	-	-	57
Fair value hedge	1	-	1	-	1
Placements with and loans to other banks	554	-	-	554	554
Loans from and advances to customers	19,867	-	-	20,322	20,322
Investment securities at FVOCI					
Debt securities	5,253	5,253	-	-	5,253
Equity securities	50	10	38	2	50
Investment securities at amortised cost	798	823	-	-	823
Other assets	169	-	-	169	169
Total	**35,282**	**7,326**	**295**	**28,141**	**35,762**
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities	81	-	81	-	81
Deposits from banks	1,171	-	-	1,171	1,171
Deposits from companies and other similar entities	11,018	-	-	11,060	11,060
Deposits from individuals	15,543	-	-	15,518	15,518
Borrowings	1,995	-	-	2,037	2,037
Other and lease liabilities	1,236	-	-	1,236	1,236
Subordinated liabilities	524	-	-	558	558
Total	**31,568**	**-**	**81**	**31,580**	**31,661**

Notes to the financial statements (continued)

50.Fair value of financial instruments (continued)

Group 2018 HRK millions	Carrying amount	Fair value			Total fair value
		Level 1	Level 2	Level 3	
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
Other assets	168	-	-	168	168
Total	**33,741**	**5,956**	**1,433**	**26,366**	**33,755**
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
Other liabilities	876	-	-	876	876
Subordinated liabilities	822	-	-	868	868
Total	**30,474**	**1**	**39**	**30,464**	**30,504**

Notes to the financial statements (continued)

50. Fair value of financial instruments (continued)

Bank 2019 HRK millions	Carrying amount		Fair value		Total fair value
		Level 1	Level 2	Level 3	
Cash and current accounts with banks	5,109	-	-	5,109	5,109
Obligatory reserve with the Croatian National Bank	1,969	-	-	1,969	1,969
Financial assets at fair value through profit or loss					
Financial assets for trading					
Debt securities	500	500	-	-	500
Equity securities	6	6	-	-	6
Derivative financial assets	62	-	62	-	62
Financial assets designated at fair value through profit or loss					
Debt securities	113	73	40	-	113
Fair value hedge	1	-	1	-	1
Placements with and loans to other banks	541	-	-	541	541
Loans from and advances to customers	18,456	-	-	18,850	18,850
Investment securities at FVOCI					
Debt securities	5,086	5,086	-	-	5,086
Equity securities	50	10	38	2	50
Investment securities at amortised cost					
Debt securities	523	527	-	-	527
Investments in subsidiaries	384	-	-	384	384
Other assets	101	-	-	101	101
Total	**32,901**	**6,202**	**141**	**26,956**	**33,299**
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities	80	-	80	-	80
Deposits from banks	1,303	-	-	1,303	1,303
Deposits from companies and other similar entities	11,170	-	-	11,213	11,213
Deposits from individuals	14,458	-	-	14,455	14,455
Borrowings	1,058	-	-	1,067	1,067
Other and lease liabities	513	-	-	513	513
Subordinated liabilities	524	-	-	558	558
Total	**29,106**	**-**	**80**	**29,109**	**29,189**

Notes to the financial statements (continued)

50. Fair value of financial instruments (continued)

Bank 2018 HRK millions	Carrying amount		Fair value		Total fair value
		Level 1	Level 2	Level 3	
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
Other assets	117	-	-	117	117
Total	**31,717**	**5,243**	**1,085**	**25,332**	**31,660**
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
Other liabilities	315	-	-	315	315
Subordinated liabilities	822	-	-	868	868
Total	**28,234**	**1**	**39**	**28,274**	**28,314**

50. 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:

	Trading instruments	*Financial assets designated at fair value through profit or loss*	*Financial assets at fair value through other comprehensive income*
Group/Bank	Equity instruments	Debt securities issued by companies	Equity securities
At 1 January 2018	**-**	**-**	**2**
Gains and losses in other comprehensive income	-	-	(1)
At 31 December 2018	**-**	**-**	**1**
Gains and losses in other comprehensive income	-	-	1
At 31 December 2019	**-**	**-**	**2**

51. 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.

The Group, in accordance with the regulatory requirements of CNB and EBA regulations, comprises of Raiffeisenbank Austria and its subsidiaries that form group of credit institutions. For the purpose of regulatory capital calculation the Group consists of: Raiffeisenbank Austria d.d., Raiffeisen stambena štedionica d.d, Raiffeisen Leasing d.o.o., Raiffeisen Consulting d.o.o.. (2018: 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 includes ordinary shares and related share premium, retained earnings, reserves, deductions for intangible assets, fair value of 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.. Additional Tier 1 capital is related to the issued bond without maturity. 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.

51. Capital management (continued)

HRK millions	Group 2019	Group 2018	Bank 2019	Bank 2018
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)	197	106	29	1
Net profit for the period	-	-	-	-
Legal, statutory and other reserves	173	173	173	173
Accumulated other comprehensive income	107	68	104	65
Deductions, in accordance with the CNB regulations				
Intangible assets	(273)	(231)	(268)	(224)
Value adjustment due to prudent valuations	(10)	(21)	(9)	(20)
Goodwill	(27)	(27)	-	-
Unrealised losses on financial assets at fair value through other comprehensive income	-	-	-	-
Deductions for investments in banks and financial institutions	(23)	(23)	(23)	(23)
Total Common Equity Tier 1 capital	**3,777**	**3,678**	**3,639**	**3,605**
Additional TIER 1 capital	**297**	**-**	**297**	**-**
Tier 2 capital	**328**	**443**	**328**	**443**
Total Own Funds	**4,402**	**4,121**	**4,264**	**4,048**
Total risk-weighted assets	**21,926**	**21,331**	**20,543**	**19,651**
Hereof:				
Credit risk, counterparty and dilution risks and free deliveries	*18,518*	*17,318*	*17,436*	*16,114*
Position, foreing exchange and commodities risk	*777*	*1,172*	*714*	*1,093*
Operational risk	*2,604*	*2,815*	*2,345*	*2,412*
Credit valuation adjustment	*27*	*26*	*48*	*32*
Capital adequacy ratio	**20.08%**	**19.32%**	**20.76%**	**20.60%**

During 2019, the capital adequacy ratio of the Group and the Bank was above the prescribed minimum.

52. Post balance sheet events

The Bank estimated that the spread of COVID 19 virus infection in 2020 would have a negative impact on operating income and increase impairment losses. The intensity will depend directly on the duration of the negative economic activities and the effects of the mitigation measures.

The expected adverse effects on the tourist season will reduce revenues from fees and commissions in the retail sector, as well as net gains from foreign exchange trading and exchange rate differences. In the corporate sector, reduced economic activity will affect the level of payment transaction income.

In the longer term, a decline in credit demand and a decrease in the overall turnover in the retail segment could lead to a decrease in interest income, which should be offset by the expected growth in restructuring loans and cash flow loans in the corporate segment.

52. Post balance sheet events (continued)

The Bank's performance in the first two months of 2020 is in line with the plan. Profit after tax was 23 percent higher than in the same period last year, with a 2.8 percent lower operating result.

Based on the publicly available data at the date of approval of these financial statements, the Bank's Management Board and executive management considered the potential development following the epidemic outbreak and the expected impact on the Bank and the Group and the economic environment, including measures already taken by the Government of the Republic of Croatia.

In order to secure business continuity and liquidity at the Bank and Group level, the Management Board has implemented a number of measures, with particular emphasis on:

- active cooperation with the Government of the Republic of Croatia, the Croatian Banking Association and the Croatian National Bank on the implementation of various government measures aimed at providing assistance to Croatian citizens, clients of the Bank and the Group,

- active access to consumers and corporate clients who are adversely affected by the outbreak of the Covid 19 pandemic, who may require or apply for restructuring of their exposures in the Bank or Group

- establishing shift work and home office arrangements for a large number of administrative and backoffice staff;

- adherence to very strict precautionary standards, including social distance in transacting with clients;

- enhanced daily monitoring of the liquidity level and the liquidity buffer

- regular monitoring and evaluation of potential effects on the income statement, on the RWA and on the bank's capital

Based on the information currently available, current performance indicators of the Bank and the Group, and with respect to actions initiated by the Management Board, we do not anticipate any direct, immediate and significant adverse impact of the Covid-19 outbreak on the Bank and the Group, operations, capital adequacy, financial position and business result. However, we cannot exclude the possibility that the prolonged lockdown measures, escalation of measures or the consequent negative effects of such measures on the economic environment might have adverse effects on the Bank and the Group and capital adequacy, financial position and operating results in the medium and long term. We will continue to monitor the situation closely and, where necessary, respond with appropriate measures to mitigate the adverse effects of any events and changed circumstances.

Further information on the impact of the Covid 19 pandemic on the operations of the Bank and the Group is provided in the Management Report, Section 5 Events after Reporting Date and Note 2 (f) Global Financial Markets and Impact on Croatia.

Officers of the Bank

The Bank's operations are controlled by the Supervisory Board and the Management Board. The officers of the Bank as at 31. December 2019 , were as follows:

Members of the Supervisory Board

Andreas Gschwenter (Chairman)
Peter Jacenko (Deputy Chairman)
Lovorka Penavić (Member)
Hrvoje Markovinović (Member)
Sabine Zucker (Member)
Harald Kreuzmair (Member)

Members of the Management Board

Michael Georg Mueller (Chairman)
Liana Keserić (Member)
Ivan Žižić (Member)
Daniel Mitteregger (Member)
Zoran Košćak (Member)
Marko Jurjević (Member)
Višnja Božinović (Member)

Chief executives:	Department
Emilija Sertić Robert Mamić	Financial Institutions, Funding and Custody Markets
Nikola Karin	Corporate Products
Dubravko Lukač	Non-Retail Credit Risk Management
Sanja Vučković	Retail Credit Risk Management
Ivan Vidaković (until 30.04.2019) Ozren Dragčević (until 30.04.2019) Matilda Aljinović (from 13.05.2019)	Retail (until 31.12.2018) Sales and Distribution Channels
Boris Vuksan	Finance
Enkelejd Zotaj	IT
Zoran Vučićević Dražen Marković (from 20.02.2020)	Legal
Irena Bašić Štefanić	Human Resources (until 28.02.2019) Human Resources and Organisational Development (from 01.03.2019)
Petar Milić	Internal Audit
Ivica Jerkić	Central Operations
Jasminka Rojko	Large Corporate Clients and Structured Finance
Toni Jurčić	Mid-Market Network
Ivka Međugorac	Sales Management
Ines Knapić (until 25.11.2019)	Collection and Workout
Ivana Hobolja Škrtić (until 28.04.2019)	CRM and Digital Channels (until 31.12.2018)
Tanja Ožbolt Sterle	Risk Controlling
Ivana Jelaš (until 31.10.2019) Jelena Gubo (from 01.03.2020)	Asset and Liability Management
Renata Gecan Milek (until 05.02.2019) Anita Cvanciger	Private Banking (31.12.2018) Private and Premium Banking
Ivana Poršinsky (until 15.08.2019) Igor Car (from 01.06.2019)	Mass Banking
Iva Bakija	Executive and Participation Management
Tomislav Ilijaš	Organisation, Process and Project Management (until 28.02.2019) Process and Project Management (from 01.03.2019.)
Goran Marinov	Procurement and General Services
Ivica Tonči Krvavica (until 09.02.2019) Dalibor Kovačević (from 11.02.2019)	Security
Igor Mataić	Investment Banking
Vera Miletić Fras (until 31.01.2019) Ivan Sobin (from 22.11.2018)	Compliance
Zrinka Živković Matijević	Economic and Financial Research

Irena Kovačević	Business Intelligence
Emil Sapunar	Retail Strategic Projects and Business Controlling
Gordan Periškić	Marketing and CRM

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.

Statement of financial position (Balance sheet)		**Group 2019 HRK millions**	**Group 2018 HRK millions**
Assets			
1.	Cash and cash equivalents, central bank receivables and other demand deposits (from 2 to 4)	5,203	5,359
2.	*Cash in hand*	1,242	1,049
3.	*Cash receivables from central banks*	3,790	4,160
4.	*Other demand deposits*	171	150
5.	Financial assets for trading (from 6 to 9)	558	828
6.	*Derivatives*	52	49
7.	*Equity instruments*	6	5
8.	*Debt securities*	500	774
9.	*Loans and advances*	-	-
10.	Non-trading financial assets mandatorily at fair value through profit or loss (from 11 to 13)	-	-
11.	*Equity instruments*	-	-
12.	*Debt securities*	-	-
13.	*Loans and advances*	-	-
14.	Financial assets at fair value through profit or loss (15+16)	114	188
15.	*Debt securities*	114	188
16.	*Loans and advances*	-	-
17.	Financial assets at fair value through other comprehensive income (from 18 to 20)	5,303	5,264
18.	*Equity instruments*	50	32
19.	*Debt securities*	5,253	5,232
20.	*Loans and advances*	-	-
21.	Financial assets at amortised cost (22 + 23)	22,997	21,302
22.	*Debt securities*	689	419
23.	*Loans and advances*	22,308	20,883
24.	Derivatives – hedge accounting	1	-
25.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	14	5
26.	Investments in subsidiaries, joint ventures and associates	263	290
27.	Tangible assets	1,024	991
28.	Intangible assets	300	258
29.	Tax assets	157	127
30.	Other assets	170	154
31.	Non-current assets and disposal groups classified as held for sale	-	-
32.	**TOTAL ASSETS (1. + 5. + 10. + 14. + 17. + 21. + from 24. to 31.)**	**36,104**	**34,766**

Appendix I – Supplementary schedules for the Croatian National Bank (continued)

Statement of financial position (Balance sheet) (continued)		Group 2019 HRK millions	Group 2018 HRK millions
Liabilities			
33.	Financial liabilities for trading (from 34 to 38)	64	30
34.	*Derivatives*	64	30
35.	*Short positions*	-	-
36.	*Depostis*	-	-
37.	*Debt securities issued*	-	-
38.	*Other financial liabilities*	-	-
39.	Financial liabilities designated at fair value through profit or loss (from 40 to 42)	-	-
40.	*Depostis*	-	-
41.	*Debt securities issued*	-	-
42.	*Other financial liabilities*	-	-
43.	Financial liabilities at amortised cost (from 44 to 46)	30,402	29,666
44.	*Deposits*	30,334	29,628
45.	*Debt securities issued*	-	-
46.	*Other financial liabilities*	68	38
47.	Derivatives – Hedge accounting	16	10
48.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
49.	Provisions	328	206
50.	Tax liabilities	-	13
51.	Share capital repayable on demand	-	-
52.	Other liabilities	342	326
53.	Liabilities included in disposal groups classified as held for sale	-	-
54.	**TOTAL LIABILITIES (33. + 39. + 43. + from 47. to 53.)**	**31,152**	**30,251**
Equity			
55.	Share capital	3,621	3,621
56.	Share premium	12	12
57.	Equity instruments issued other than capital	297	-
58.	Other equity	-	-
59.	Accumulated other comprehensive income	110	73
60.	Retained earnings	299	337
61.	Revaluation reserves	-	-
62.	Other reserves	192	190
63.	(-) Treasury shares	-	-
64.	Profit or loss attributable to owners of the parent	421	282
65.	(-) Interim dividends	-	-
66.	Minority interests (Non-controlling interests)	-	-
67.	**TOTAL EQUITY (from 55. to 66.)**	**4,952**	**4,515**
68.	**TOTAL LIABILITIES AND EQUITY (54. + 67.)**	**36,104**	**34,766**

Appendix I – Supplementary schedules for the Croatian National Bank (continued)

Statement of financial position (Balance sheet) (continued)		Bank 2019 HRK millions	Bank 2018 HRK millions
Assets			
1.	Cash and cash equivalents, central bank receivables and other demand deposits (from 2 to 4)	5,170	5,322
2.	*Cash in hand*	1,242	1,049
3.	*Cash receivables from central banks*	3,790	4,160
4.	*Other demand deposits*	138	113
5.	Financial assets for trading (from 6 to 9)	568	831
6.	*Derivatives*	62	52
7.	*Equity instruments*	6	5
8.	*Debt securities*	500	774
9.	*Loans and advances*	-	-
10.	Non-trading financial assets mandatorily at fair value through profit or loss (from 11 to 13)	37	36
11.	*Equity instruments*	-	-
12.	*Debt securities*	-	-
13.	*Loans and advances*	37	36
14.	Financial assets at fair value through profit or loss (15 + 16)	113	188
15.	*Debt securities*	113	188
16.	*Loans and advances*	-	-
17.	Financial assets at fair value through other comprehensive income (from 18 to 20)	5,136	5,057
18.	*Equity instruments*	50	32
19.	*Debt securities*	5,086	5,025
20.	*Loans and advances*	-	-
21.	Financial assets at amortised cost (22 + 23)	21,409	19,783
22.	*Debt securities*	523	252
23.	*Loans and advances*	20,886	19,531
24.	Derivatives – hedge accounting	1	-
25.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	14	5
26.	Investments in subsidiaries, joint ventures and associates	384	423
27.	Tangible assets	683	507
28.	Intangible assets	268	224
29.	Tax assets	148	120
30.	Other assets	145	129
31.	Non-current assets and disposal groups classified as held for sale	-	-
32.	**TOTAL ASSETS (1. + 5. + 10. + 14. + 17. + 21. + from 24. to 31.)**	**34,076**	**32,625**

Appendix I – Supplementary schedules for the Croatian National Bank (continued)

Statement of financial position (Balance sheet) (continued)		Bank 2019 HRK millions	Bank 2018 HRK millions
Liabilities			
33.	Financial liabilities for trading (from 34 to 38)	64	30
34.	*Derivatives*	64	30
35.	*Short positions*	-	-
36.	*Depostis*	-	-
37.	*Debt securities issued*	-	-
38.	*Other financial liabilities*	-	-
39.	Financial liabilities designated at fair value through profit or loss (from 40 to 42)	-	-
40.	*Depostis*	-	-
41.	*Debt securities issued*	-	-
42.	*Other financial liabilities*	-	-
43.	Financial liabilities at amortised cost (from 44 to 46)	28,692	27,869
44.	*Deposits*	28,510	27,866
45.	*Debt securities issued*	-	-
46.	*Other financial liabilities*	182	3
47.	Derivatives – Hedge accounting	16	10
48.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
49.	Provisions	312	189
50.	Tax liabilities	-	-
51.	Share capital repayable on demand	-	-
52.	Other liabilities	306	292
53.	Liabilities included in disposal groups classified as held for sale	-	-
54.	**TOTAL LIABILITIES (33. + 39. + 43. + from 47. to 53.)**	**29,390**	**28,390**
Equity			
55.	Share capital	3,621	3,621
56.	Share premium	12	12
57.	Equity instruments issued other than capital	297	-
58.	Other equity	-	-
59.	Accumulated other comprehensive income	104	65
60.	Retained earnings	29	136
61.	Revaluation reserves	-	-
62.	Other reserves	185	182
63.	(-) Treasury shares	-	-
64.	Profit or loss attributable to owners of the parent	438	219
65.	(-) Interim dividends	-	-
66.	Minority interests (Non-controlling interests)	-	-
67.	**TOTAL EQUITY (from 55. to 66.)**	**4,686**	**4,235**
68.	**TOTAL LIABILITIES AND EQUITY (54. + 67.)**	**34,076**	**32,625**

Appendix I – Supplementary schedules for the Croatian National Bank (continued)

	Income statement	Group 2019 HRK millions	Group 2018 HRK millions
1.	Interest income	1,009	1,031
2.	(Interest expense)	(122)	(165)
3.	(Expenses on share capital repayable on demand)	-	-
4.	Dividend income	85	79
5.	Fee and commission income	798	689
6.	(Fee and commission expense)	(457)	(390)
7.	Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	6	184
8.	Gains or (-) losses on financial assets and liabilities held for trading, net	140	149
9.	Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(2)	-
10.	Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	10	(3)
11.	Gains or (-) losses from hedge accounting, net	(3)	-
12.	Exchange differences [gain or (-) loss], net	(9)	(1)
13.	Gains or (-) losses on derecognition of non-financial assets, net	(19)	14
14.	Other operating income	100	103
15.	(Other operating expense)	(73)	(84)
16.	**TOTAL OPERATING INCOME, NET (1. to 15.)**	**1,463**	**1,606**
17.	(Administrative expense)	(721)	(733)
18.	(Depreciation)	(138)	(137)
19.	Modification gains or (-) losses, net	(8)	(15)
20.	(Provisions or (-) reversal of provisions)	(129)	(19)
21.	(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	(24)	(400)
22.	(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates))	-	-
23.	(Impairment or (-) reversal of impairment on non-financial assets)	-	-
24.	Negative goodwill recognised in profit or loss	-	-
25.	Share of the profit or (-) loss of investments in subsidaries, joint ventures and associates accounted for using the equity method	(22)	7
26.	Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	-
27.	**PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS (16. to 26.)**	**421**	**309**
28.	(Tax expense or (-) income related to profit or loss from continuing operations)	-	(26)
29.	**PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS (27. + 28.)**	**421**	**283**
30.	Profit or (-) loss after tax from discontinued operations (31 – 32)	-	-
31.	Profit or (-) loss before tax from discontinued operations	-	-
32.	(Tax expense or (-) income related to discontinued operations)	-	-
33.	**PROFIT OR (-) LOSS FOR THE YEAR**	**421**	**283**
34.	Attributable to minority interest [non-controlling interests]	-	-
35.	Attributable to owners of the parent	421	283

Statement of comprehensive income		Group 2019 HRK millions	Group 2018 HRK millions
1.	**PROFIT OR (-) LOSS FOR THE YEAR**	**421**	**283**
2.	Other comprehensive income (3 + 15)	37	(15)
3.	Items that will not be reclassified to profit or loss (from 4 to 10 + 13 + 14)	17	2
4.	Tangible assets	-	-
5.	Intangible assets	-	-
6.	Actuarial gains or (-) losses on defined benefit pension plans	-	-
7.	Non-current assets and disposal groups held for sale	-	-
8.	Share of other recognised income and expense of entities accounted for using the equity method	-	-
9.	Fair value changes of equity instruments measured at fair value through other comprehensive income	18	2
10.	Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-
11.	Fair value changes of equity instruments measured at fair value through other comprehensive income (hedged item)	-	-
12.	Fair value changes of equity instruments measured at fair value through other comprehensive income (hedging instrument)	-	-
13.	Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-
14.	Items that are or may be reclassified to profit or loss	(1)	-
15.	**Items that may be reclassified to profit of loss (from 16 to 23)**	**20**	**(17)**
16.	Hedges of net investments in foreign operations (effective portion)	-	-
17.	Foreign currency translation	-	-
18.	Cash flow hedges (effective portion)	-	-
19.	Hedging instruments (not designated elements)	-	-
20.	Debt instruments at fair value through other comprehensive Income	25	(19)
21.	Non-current assets and disposal groups held for sale	-	-
22.	Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	-	-
23.	Income tax relating to items that may be reclassifies to profit or (-) loss	(5)	2
24.	**Total comprehensive income for the year (1 + 2; 25 + 26)**	**458**	**268**
25.	Attributable to minority interest (non-controlling interest)	-	-
26.	Attributable to owners of the parent	458	268

Appendix I – Supplementary schedules for the Croatian National Bank (continued)

Income statement

		Bank 2019 HRK millions	Bank 2018 HRK millions
1.	Interest income	932	952
2.	(Interest expense)	(93)	(125)
3.	(Expenses on share capital repayable on demand)	-	-
4.	Dividend income	85	79
5.	Fee and commission income	795	685
6.	(Fee and commission expense)	(454)	(386)
7.	Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	6	184
8.	Gains or (-) losses on financial assets and liabilities held for trading, net	147	156
9.	Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	-	-
10.	Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	10	(2)
11.	Gains or (-) losses from hedge accounting, net	(3)	-
12.	Exchange differences [gain or (-) loss], net	(11)	(14)
13.	Gains or (-) losses on derecognition of non-financial assets, net	(20)	-
14.	Other operating income	37	18
15.	(Other operating expense)	(69)	(79)
16.	**TOTAL OPERATING INCOME, NET (1. to 15.)**	**1,362**	**1,468**
17.	(Administrative expense)	(657)	(688)
18.	(Depreciation)	(106)	(81)
19.	Modification gains or (-) losses, net	(8)	(15)
20.	(Provisions or (-) reversal of provisions)	(129)	(13)
21.	(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	(26)	(393)
22.	(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates))	-	(39)
23.	(Impairment or (-) reversal of impairment on non-financial assets)	-	-
24.	Negative goodwill recognised in profit or loss	-	-
25.	Share of the profit or (-) loss of investments in subsidaries, joint ventures and associates accounted for using the equity method	-	-
26.	Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	-
27.	**PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS (16. to 26.)**	**436**	**239**
28.	(Tax expense or (-) income related to profit or loss from continuing operations)	2	(20)
29.	**PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS (27. - 28.)**	**438**	**219**
30.	Profit or (-) loss after tax from discontinued operations (31 – 32)	-	-
31.	Profit or (-) loss before tax from discontinued operations	-	-
32.	(Tax expense or (-) income related to discontinued operations)	-	-
33.	**PROFIT OR (-) LOSS FOR THE YEAR (29 + 30; 34 + 35)**	**438**	**219**
34.	Attributable to minority interest [non-controlling interests]	-	-
35.	Attributable to owners of the parent	438	219

Appendix I – Supplementary schedules for the Croatian National Bank (continued)

Statement of comprehensive income		Bank 2019 HRK millions	Bank 2018 HRK millions
1.	**PROFIT OR (-) LOSS FOR THE YEAR**	**438**	**219**
2.	Other comprehensive income (3 + 15)	(39)	(13)
3.	Items that will not be reclassified to profit or loss (from 4 to 10 + 13 + 14)	17	2
4.	Tangible assets	-	-
5.	Intangible assets	-	-
6.	Actuarial gains or (-) losses on defined benefit pension plans	-	-
7.	Non-current assets and disposal groups held for sale	-	-
8.	Share of other recognised income and expense of entities accounted for using the equity method	-	-
9.	Fair value changes of equity instruments measured at fair value through other comprehensive income	18	2
10.	Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-
11.	Fair value changes of equity instruments measured at fair value through other comprehensive income (hedged item)	-	-
12.	Fair value changes of equity instruments measured at fair value through other comprehensive income (hedging instrument)	-	-
13.	Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-
14.	Items that are or may be reclassified to profit or loss	(1)	-
15.	**Items that may be reclassified to profit of loss (from 16 to 23)**	**22**	**(15)**
16.	Hedges of net investments in foreign operations (effective portion)	-	-
17.	Foreign currency translation	-	-
18.	Cash flow hedges (effective portion)	-	-
19.	Hedging instruments (not designated elements)	-	-
20.	Debt instruments at fair value through other comprehensive Income	27	(17)
21.	Non-current assets and disposal groups held for sale	-	-
22.	Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	-	-
23.	Income tax relating to items that may be reclassifies to profit or (-) loss	(5)	2
24.	**Total comprehensive income for the year (1 + 2; 25 + 26)**	**477**	**206**
25.	Attributable to minority interest (non-controlling interest)	-	-
26.	Attributable to owners of the parent	477	206

Appendix I – Supplementary schedules for the Croatian National Bank (continued)

Statement of cash flows – indirect method

		Group 2019 HRK millions	Group 2018 HRK millions
	Operating activities under indirect method		
9.	Profit/(loss) before tax	**421**	**309**
	Adjustments:		
10.	Impairment losses	134	419
11.	Depreciation and amortization	138	137
12.	Unrealised (gains)/losses on securities at fair value through profit or loss	(6)	(146)
13.	(Gains)/losses from sale of tangible assets	(20)	(13)
14.	Other non cash items	(949)	(11)
	Changes in assets and liabilities due to operating activities		
15.	Deposits with the Croatian National Bank	-	-
16.	Deposits with banking institutions and loans to financial institutions	33	66
17.	Loans and advances to other clients	(2,507)	(451)
18.	Securities and other financial instruments at fair value through other comprehensive income	-	-
19.	Securities and other financial instruments held for trading	326	(170)
20.	Securities and other financial instruments at fair value through profit or loss which are not actively traded	(17)	(150)
21.	Securities and other financial instruments mandatorily at FVTPL	-	-
22.	Securities and other financial instruments at amortized cost	-	-
23.	Other assets from operating activities	(16)	(59)
24.	Deposits from financial institutions	576	(467)
25.	Transaction accounts of other clients	1,605	3,777
26.	Savings deposits of other clients	-	-
27.	Time deposits of other clients	(1,372)	(2,411)
28.	Derivative financial liabilities and other traded liabilities	40	-
29.	Other liabilities	60	(130)
30.	Interest received	958	1,065
31.	Dividend received	-	-
32.	Interest paid	(127)	(183)
33.	(Income tax paid)	(35)	(131)
34.	**Net inflow/(outflow) of cash from operating activities (from 1. to 33.)**	**(758)**	**1,451**
	Investing activities		
35.	Cash receipts from/(payments to acquire) tangible and intangible assets	(122)	293
36.	Cash receipts from the disposal of/(payments for the investment in) subsidiaries, associates and joint ventures	-	-
37.	Cash receipts from sales of/(cash payments to acquire) securities and other investment securities	(186)	487
38.	Dividends received	85	79
39.	Other receipts/payments from investing activities	22	7
40.	**Net cash flow from investing activities (from 35. to 39.)**	**(201)**	**866**
	Financing activities		
41.	Net increase/(decrease) in loans received from financing activities	86	(624)
42.	Net increase/(decrease) of debt securities issued	-	-
43.	Net increase/(decrease) of Tier 2 capital instruments	2	-
44.	Increase of share capital	-	-
45.	(Dividends paid)	(354)	(396)
46.	Other receipts/payments from financing activities	-	-
47.	**Net cash flow from financing activities (from 41. to 46.)**	**(266)**	**(1,020)**
48.	**Net increase/(decrease) in cash and cash equivalents (34. + 40. + 47.)**	(1,225)	1,297
49.	**Cash and cash equivalents at the beginning of the year**	**6,829**	**5,529**
50.	Effect of foreign exchange differences on cash and cash equivalents	34	3
51.	**Cash and cash equivalents at the end of the year (48. + 49. + 50.)**	**5,638**	**6,829**

Appendix I – Supplementary schedules for the Croatian National Bank (continued)

Statement of cash flows – indirect method

		Bank 2019 HRK Millions	Bank 2018 HRK millions
	Operating activities under indirect method		
9.	Profit/(loss) before tax	**436**	**239**
	Adjustments:		
10.	Impairment losses	157	444
11.	Depreciation and amortization	106	81
12.	Unrealised (gains)/losses on securities at fair value through profit or loss	(6)	(154)
13.	(Gains)/losses from sale of tangible assets	(20)	-
14.	Other non cash items	(902)	(396)
	Changes in assets and liabilities due to operating activities		
15.	Deposits with the Croatian National Bank	-	-
16.	Deposits with banking institutions and loans to financial institutions	49	44
17.	Loans and advances to other clients	(2,468)	(123)
18.	Securities and other financial instruments at fair value through other comprehensive income	-	-
19.	Securities and other financial instruments held for trading	319	(150)
20.	Securities and other financial instruments at fair value through profit or loss which are not actively traded	76	(188)
21.	Securities and other financial instruments mandatorily at FVTPL	(2)	5
22.	Securities and other financial instruments at amortized cost	-	-
23.	Other assets from operating activities	23	35
24.	Deposits from financial institutions	622	(420)
25.	Transaction accounts of other clients	1,547	3,732
26.	Savings deposits of other clients	-	-
27.	Time deposits of other clients	(1,406)	(1,994)
28.	Derivative financial liabilities and other traded liabilities	40	-
29.	Other liabilities	13	(126)
30.	Interest received	908	952
31.	Dividend received	-	-
32.	Interest paid	(97)	(141)
33.	(Income tax paid)	(28)	(135)
34.	**Net inflow/(outflow) of cash from operating activities (from 1. to 33.)**	**(633)**	**1,705**
	Investing activities		
35.	Cash receipts from/(payments to acquire) tangible and intangible assets	(142)	(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	(251)	265
38.	Dividends received	85	79
39.	Other receipts/payments from investing activities	8	-
40.	**Net cash flow from investing activities (from 35. to 39.)**	**(300)**	**164**
	Financing activities		
41.	Net increase/(decrease) in loans received from financing activities	61	(199)
42.	Net increase/(decrease) of debt securities issued	-	-
43.	Net increase/(decrease) of Tier 2 capital instruments	2	-
44.	Increase of share capital	-	-
45.	(Dividends paid)	(354)	(396)
46.	Other receipts/payments from financing activities	-	-
47.	**Net cash flow from financing activities (from 41. to 46.)**	**(291)**	**(595)**
48.	**Net increase/(decrease) in cash and cash equivalents (34. + 40. + 47.)**	(1,224)	1,274
49.	**Cash and cash equivalents at the beginning of the year**	**6,805**	**5,528**
50.	Effect of foreign exchange differences on cash and cash equivalents	33	3
51.	**Cash and cash equivalents at the end of the year (48. + 49. + 50.)**	**5,614**	**6,805**

Appendix I – Supplementary schedules for the Croatian National Bank (continued)

Statement of changes in equity

	Group 2019 (All amounts in HRK million)	Share capital	Share premium	Equity instruments issued other than share capial	Other equity instruments	Accumula-ted other comprehen-sive income	Retained earnings	Revalu ation reserves	Other reserves	Treasury shares	Profit or (-) loss attributable to owners of the parent	Interim divi-dends	Non-controlling interest: Accumu-lated other comprehen-sive income	Non-controlling interest: Other items	Total
1.	**Opening balance [before restatement]**	**3,621**	**12**	**-**	**-**	**73**	**336**	**-**	**190**		**283**	**-**	**-**	**-**	**4,515**
2.	Correction of errors	-	-	-	-	-	-	-	-		-	-	-	-	-
3.	Changes of accounting policies	-	-	-	-	-	-	-	-		-	-	-	-	-
4.	**Opening balance [current period] (1 + 2 + 3)**	**3,621**	**12**	**-**	**-**	**73**	**336**	**-**	**190**		**283**	**-**	**-**	**-**	**4,515**
5.	Issuance of ordinary shares	-	-	-	-	-	-	-	-		-	-	-	-	-
6.	Issuance of preference shares	-	-	-	-	-	-	-	-		-	-	-	-	-
7.	Issuance of other equity instruments				297										297
8.	Exercise of expiration of other equity instruments issued	-	-	-	-	-	-	-	-		-	-	-	-	-
9.	Conversion of debt to equity	-	-	-	-	-	-	-	-		-	-	-	-	-
10.	Capital reduction	-	-	-	-	-	-	-	-		-	-	-	-	-
11.	Dividends	-	-	-		-	(354)	-	-		-	-	-	-	(354)
12.	Purchase of treasury shares	-	-	-	-	-	-	-	-		-	-	-	-	-
13.	Sale or cancelattion of treasury shares	-	-	-	-	-	-	-	-		-	-	-	-	-
14.	Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-		-	-	-	-	-
15.	Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-		-	-	-	-	-
16.	Transfer between components of owner's instruments	-	-	-		-	283	-	-		(283)	-	-	-	-
17.	Equity increase or (-) decrease resulting from business combination	-	-	-	-	-	-	-	-		-	-	-	-	-
18.	Share based payments	-	-	-	-	-	-	-	-		-	-	-	-	-
19.	Other increase or (–) decrease of owner's instruments	-	-	-		-	34	-	2		-	-	-	-	36
20.	Total comprehensive income for the year	-	-	-		37	-	-	-		421	-	-	-	458
21.	**Closing balance [current period] (from 4 to 20)**	**3,621**	**12**	**-**	**297**	**110**	**299**	**-**	**192**		**421**	**-**	**-**	**-**	**4,952**

Appendix I – Supplementary schedules for the Croatian National Bank (continued)

Statement of changes in equity

Bank 2019

(All amounts in HRK million)

													Non-controlling interest		
		Share capital	Share premium	Equity instruments issued other than share capial	Other equity instruments	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	Treasury shares	Profit or (-) loss attributable to owners of the parent	Interim dividends	Accumulated other comprehensive income	Other items	Total
1.	**Opening balance [before restatement]**	**3,621**	**12**	**-**	**-**	**65**	**136**	**-**	**182**	**-**	**219**	**-**	**-**	**-**	**4,235**
2.	Correction of errors	-	-	-	-	-	-	-	-		-	-	-	-	-
3.	Changes of accounting policies	-	-	-	-	-	-	-	-		-	-	-	-	-
4.	**Opening balance [current period] (1 + 2 + 3)**	**3,621**	**12**	**-**	**-**	**65**	**136**	**-**	**182**	**-**	**219**	**-**	**-**	**-**	**4,235**
5.	Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6.	Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7.	Issuance of other equity instruments				297	-									297
8.	Exercise of expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9.	Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10.	Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11.	Dividends	-	-	-		-	(354)	-	-	-	-	-	-	-	(354)
12.	Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13.	Sale or cancelattion of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.	Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15.	Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16.	Transfer between components of owner's instruments	-	-	-		-	219	-	-	-	(219)	-	-	-	-
17.	Equity increase or (-) decrease resulting from business combination	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18.	Share based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19.	Other increase or (–) decrease of owner's instruments	-	-	-			28	-	3	-	-	-	-	-	31
20.	Total comprehensive income for the year	-	-	-		39	-	-	-	-	438	-	-	-	477
21.	**Closing balance [current period] (from 4 to 20)**	**3,621**	**12**	**-**	**297**	**104**	**29**	**-**	**185**	**-**	**438**	**-**	**-**	**-**	**4,686**

Appendix I – Supplementary schedules for the Croatian National Bank (continued)

Statement of changes in equity

Group 2018

(All amounts in HRK million)

		Share capital	Share premium	Equity instruments issued other than share capial	Other equity instruments	Accumula-ted other comprehen-sive income	Retained earnings	Revalu ation reserves	Other reserves	Treasury shares	Profit or (-) loss attributable to owners of the parent	Interim divi-dends	Non-controlling interest: Accumu-lated other comprehen-sive income	Non-controlling interest: Other items	Total
1.	**Opening balance [before restatement]**	**3,621**	**12**	**-**	**-**	**49**	**634**	**-**	**190**		**188**	**-**	**-**	**-**	**4,694**
2.	Correction of errors	-	-	-	-	-	-	-	-		-	-	-	-	-
3.	Changes of accounting policies	-	-	-	-	39	(90)	-	-		-	-	-	-	(51)
4.	**Opening balance [current period] (1 + 2 3)**	**3,621**	**12**	**-**	**-**	**88**	**544**	**-**	**190**		**188**	**-**	**-**	**-**	**4,643**
5.	Issuance of ordinary shares	-	-	-	-	-	-	-	-		-	-	-	-	-
6.	Issuance of preference shares	-	-	-	-	-	-	-	-		-	-	-	-	-
7.	Issuance of other equity instruments				-										-
8.	Exercise of expiration of other equity instruments issued	-	-	-	-	-	-	-	-		-	-	-	-	-
9.	Conversion of debt to equity	-	-	-	-	-	-	-	-		-	-	-	-	-
10.	Capital reduction	-	-	-	-	-	-	-	-		-	-	-	-	-
11.	Dividends	-	-	-		-	(396)	-	-		-	-	-	-	(396)
12.	Purchase of treasury shares	-	-	-	-	-	-	-	-		-	-	-	-	-
13.	Sale or cancelattion of treasury shares	-	-	-	-	-	-	-	-		-	-	-	-	-
14.	Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-		-	-	-	-	-
15.	Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-		-	-	-	-	-
16.	Transfer between components of owner's instruments	-	-	-		-	188	-	-		(188)	-	-	-	-
17.	Equity increase or (-) decrease resulting from business combination	-	-	-	-	-	-	-	-		-	-	-	-	-
18.	Share based payments	-	-	-	-	-	-	-	-		-	-	-	-	-
19.	Other increase or (–) decrease of owner's instruments	-	-	-		-	-	-	-		-	-	-	-	
20.	Total comprehensive income for the year	-	-	-		(15)	-	-	-		283	-	-	-	268
21.	**Closing balance [current period] (from 4 to 20)**	**3,621**	**12**	**-**	**-**	**73**	**336**	**-**	**190**		**283**	**-**	**-**	**-**	**4,515**

Appendix I – Supplementary schedules for the Croatian National Bank (continued)

Statement of changes in equity

Non-controlling interest

	Bank 2018 (All amounts in HRK million)	Share capital	Share premium	Equity instruments issued other than share capial	Other equity instruments	Accumula-ted other comprehen-sive income	Retained earnings	Revalu ation reserves	Other reserves	Treasury shares	Profit or (-) loss attributable to owners of the parent	Interim divi-dends	Accumu-lated other comprehen-sive income	Other items	Total
1.	**Opening balance [before restatement]**	**3,621**	**12**	**-**	**-**	**34**	**222**	**-**	**180**	**-**	**396**	**-**	**-**	**-**	**4,465**
2.	Correction of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.	Changes of accounting policies	-	-	-	-	44	(86)	-	-	-	-	-	-	-	(42)
4.	**Opening balance [current period] (1 + 2 + 3)**	**3,621**	**12**	**-**	**-**	**78**	**136**	**-**	**180**	**-**	**396**	**-**	**-**	**-**	**4,423**
5.	Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6.	Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7.	Issuance of other equity instruments				-	-									-
8.	Exercise of expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9.	Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10.	Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11.	Dividends	-	-	-		-	(396)	-	-	-	-	-	-	-	(396)
12.	Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13.	Sale or cancelattion of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.	Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15.	Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16.	Transfer between components of owner's instruments	-	-	-		-	396	-	-	-	(396)	-	-	-	-
17.	Equity increase or (-) decrease resulting from business combination	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18.	Share based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19.	Other increase or (–) decrease of owner's instruments	-	-	-	-		-	-	2	-	-	-	-	-	2
20.	Total comprehensive income for the year	-	-	-	-	(13)	-	-	-	-	219	-	-	-	206
21.	**Closing balance [current period] (from 4 to 20)**	**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 (continued)

Statement of financial position

- The difference in total assets and total liabilities relates to other consolidating companies, which, according to the CNB Decision, are consolidated according to the equity method
- In statements under the CNB Decision guarantee depostis in the amount of HRK 62 million is presented under position “Other demand deposits” and in in the statement under the statutory requirements for accounting of banks in the Republic of Croatia in position “Financial assets measured at amortised cost”.

- The differences between the items disclosed in the statement under the statutory requirements for accounting of banks in the Republic of Croatia and the statements under the CNB Decision fall into the following categories: -items „ Obligatory reserve with the Croatian National Bank “, „Placements and loans to other banks“ and „Loans and advances to customers“ are disclosed separately and investment securities at amortized cost within the item "Investment securities " in the statement prepared according to statutory requirements for accounting of banks in the Republic of Croatia, whereas, in the reports according to the CNB Decision they are presented under "Financial assets at amortised cost ”. Furthermore, in the statements under the CNB Decision the item "Financial assets at amortised cost" includes fees and other receivables stated at amortized cost in the amount of HRK 32 million, whereas in the report prepared according to statutory requirements for accounting of banks in the Republic of Croatia this amount is stated under "Other assets". According to the CNB Decision, the item "Change in the fair value of hedged items in portfolio hedging against interest rate risk" in the amount of HRK 14 million is presented separately, while in the statement prepared under the statutory requirements for accounting of banks in the Republic of Croatia it is shown in the item "Financial assets at amortised cost".

- Item "Financial assets at fair value through profit or loss" is disclosed as one category in the statement prepared according to statutory requirements for accounting of banks in the Republic of Croatia, while the reports under the CNB Decision separately present the items "Financial assets held for trading” and“ Financial assets at fair value through profit or loss ”.
- The difference between the position “Investments in subsidiaries, joint ventures and associates” in the consolidated statement of financial position under the statutory requirements for accounting of banks in the Republic of Croatia and the statements under the CNB Decision represent investments that are consolidated in accordance with the CNB Decision according to the equity method

- Items "Right of use assets" and "Property, plant, equipment and real estate investments" in the statement according to statutory requirements for accounting of banks in the Republic of Croatia are presented separately, while in the reports according to the CNB Decision they are stated as category "Tangible assets" .

- Items "Deposits from banks", "Deposits of corporations and other similar entities" and "Deposits of private individuals" are presented separately in the statement according to statutory requirements for accounting of banks in the Republic of Croatia whereas in the statements according to the CNB Decision they are presented as one category "Financial liabilities at amortised cost. "

- In the schedules according to the CNB Decision, other long-term benefits for employees are stated in the item "Provisions", while in the report according to statutory requirements for accounting of banks in the Republic of Croatia it is shown in the item "Other liabilities".
- In the statement prepared according to statutory requirements for accounting of banks in the Republic of Croatia, client funds generated by the closure of inactive deposit accounts, in the amount of HRK 12 million, are presented in Other liabilities, while in the statements according to the CNB Decision they are presented under the Other reserves.

Appendix II – Reconciliation of the statutory financial statements with the supplementary schedules for the Croatian National Bank (continued)

Income statement

- In the statement prepared according to legal requirements for accounting of banks in the Republic of Croatia, changes in contractual cash flows are disclosed in Interest income, while according to the CNB Decision they are presented in Gains or losses due to changes.
- Dividend income stated in reports in accordance with the CNB Decision was generated from the company which is not consolidated under the CNB Decision, whereas it must be consolidated and consequently eliminated under the statutory accounting requirements for banks in the Republic of Croatia.
- According to legal requirements for accounting for banks in the Republic of Croatia, revenues from the sale of tangible assets reduced the item "Other operating expenses", while in the reports according to the CNB Decision they were shown under the item "Other operating income".
- 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 “Operating expenses”.
- Items "Administrative expenses" and "Depreciation" in the statement prepared according to the CNB Decision are disclosed separately while in the report according to the statutory requirements for accounting of banks in the Republic of Croatia they are presented in category "Operating expenses".

Statement of changes in equity

- Item Other reserves in the statement prepared according to the CNB Decision consists of the capital and legal reserves, and in the statement prepared according to the statutory requirements for accounting of banks in the Republic of Croatia, these items are disclosed separately. In addition, the capital in the report according to the CNB Decision increased for the amount of customer funds resulting from the closing of inactive deposits.
- Current year profit and retained earnings are disclosed separately in the report according to the CNB Decision, and in the report according to legal requirements, these two positions are shown as retained earnings

Statement of cash flows

- In the statement of cash flows according to the CNB Decision, companies that are not part of prudential consolidation are consolidated using the equity method, and the effect is reflected in profit before tax and other assets from operating activities.