Addiko Bank

Annual Report 2019

Addiko Bank d.d. Croatia

Key data

in HRK million

	2019	2018	Change (%, pts)
Profit or Loss statement			
Net interest income	481.1	462.5	4.0%
Net fee and commission income	190.4	174.1	9.4%
Other operating result	143.9	78.2	84.0%
Operating expenses	(479.6)	(495.8)	(3.3%)
Operating result	**335.8**	**219.0**	**53.3%**
Impairment losses and provisions	(176.2)	(30.8)	472.1%
Income tax	(2.9)	(17.3)	(83.2%)
Net profit for the year	**156.7**	**170.9**	**(8.3%)**
Selected items of the Statement of financial position			
Loans and receivables from customers	10,172.7	10,075.6	1.0%
Current accounts and deposits from customers	12,976.6	13,597.2	(4.6%)
Equity	3,018.7	2,898.6	4.1%
Total assets	17,969.3	18,380.4	(2.2%)
Risk-weighted assets	11,438.0	11,638.0	(1.7%)
Key ratios			
Net interest income/ total average assets	2.6%	2.3%	0.3
Cost/income ratio	58.8%	69.4%	(10.5)
Loan to Deposit Ratio	78.4%	74.1%	4.3
Non-Performing Loan Ratio	4.3%	6.6%	(2.3)
Cost of Risk Ratio	0.1%	0.3%	(0.2)
NPL coverage Ratio	67.8%	73.0%	(5.2)
Bank-specific figures			
Core Tier 1 ratio	23.5%	22.8%	0.7
Total capital ratio	26.2%	27.2%	(1.0)

Contents

Letter from the CEO

Dear customers, partners, employees and shareholders,

In 2019 Addiko Group reached a new milestone with Addiko Bank AG going public, and as of 12 July 2019 being listed and trading on the prime market of the Vienna Stock Exchange.

The success of 'going public' is a result of a four-year roadmap that began in 2015, was followed up with the new specialist business strategy roll-out that was, and still is, considerably and tangibly different from the strategies of other universal banks in our market. This was followed by the repositioning, launch of the new Addiko brand and a new modern bank, and a successful business turnaround which brings us to the Group being on the stock exchange. This is by no means an end of the journey toward straightforward banking, but rather the last in the line of milestones of the Bank's business transformation.

Just a few years ago, Addiko Bank started operating in a saturated Croatian market. But we were driven by great ambition, led with a clear vision and we wanted and dared to change the Croatian banking industry. In the world of universal bank copies, which dominate the CSEE region, we chose to be different, we wanted to be an original, we decided to be a specialist bank that concentrates primarily on consumer lending, financing small and medium enterprises and payment services.

Back in 2016 Addiko Bank's strategy was questioned in the market. Today, Addiko Bank has established itself in Croatia as one of the most modern banks. We are recording continuous double-digit growth in our strategic customer segments and products and made a HRK 156.7 million profit in 2019. We have received several domestic and international awards for the best bank in Croatia, introduced novelties such as chat banking and a unique Virtual branch, which was recognized as the best product/service innovation in retail banking in 2019 in the whole of Europe.

Persistence in focusing our product portfolio towards our customer needs, simplification of processes, continuous improvement of corporate governance and strong control functions have proven to be an appropriate approach ensuring long-term sustainable stability and profitable growth. But our job is nowhere nearly done. We are more than well aware that our shareholders are looking at profitable growth, that our customers are looking for a modern banking experience, that our employees are looking for a great place to work and we see it as our responsibility to deliver on all points - sustainable business development in strategic segments, straightforward banking, great digital and seamless customer experience while simultaneously continuing to be a great place to work.

I am extremely proud of all that Addiko Bank has achieved, but more importantly I am convinced we can maintain the high-performing tempo and that there is significant room for organic growth. Especially, since the CSEE region is the last EU convergence market where growth should be faster than in the rest of the EU region. The fact that convergence process affects predominantly consumption and borrowing also benefits in particular our target segments.

We are looking to 2020 with a founded ambition, great track record, and proven business model and with a clear goal to continue creating value for our customers, partners, employees and shareholders.

Sincerely,

Mario Žižek

The Management Board

Mario Žižek

Chief Executive Officer, Chief Financial Officer &
Chief Retail Banking Officer

Responsible for:

Board and Corporate Governance Office
Legal and Compliance
Internal Audit
Group Human Resources
Accounting and Reporting
Balance Sheet Management and Treasury
Management Information System
Group Business Controlling
Retail Product and Client Value Management
Retail Channels and Sales Management
Group Retail Markets Development
Corporate Communications and Marketing
Digital Transformation*
Real Estate Management*
Group Procurement*

Ivan Jandrić

Chief Corporate Banking Officer &
Chief Operations Officer*

Responsible for:

Large Corporate and Public Finance
Small and Medium Enterprises
Product Development and Sales Management
Group Transaction Banking and Operations*
Information Technology*
Card Processing Centre*

** With the resignation by Jasna Širola the COO responsibilities have with 23 September 2019 been distributed between Management Board members.*

Dubravko-Ante Mlikotić
Chief Risk Officer

Responsible for:
Risk Control
Corporate Credit Management
Corporate Distressed Asset Management
Retail Risk Management
Group Risk Management Support
Fraud Prevention
Security*

Jasna Širola*
Chief Operations Officer

Responsible for:
Group Transaction Banking and Operations
Information Technology
Real Estate Management
Card Processing Centre
Group Procurement
Security

** With the resignation by Jasna Širola the COO responsibilities have with 23 September 2019 been distributed between Management Board members.*

Joško Mihić
Procurator

Responsible for advising on CFO matters:

Finances
Accounting
Treasury
Real Estate Management
Group Procurement

Management Report

for the year ended 31 December 2019

1. Overview of Addiko Bank

Addiko Bank d.d. (hereinafter referred to also as Addiko Bank or the Bank) is owned by Addiko Bank AG, an international banking group.

Addiko Group is a consumer and small and medium-sized enterprises (SME) specialist banking group in Central and South Eastern Europe (CSEE). Addiko Group consists of Addiko Bank AG, the fully-licensed Austrian parent bank registered in Vienna, Austria, and regulated by the Austrian Financial Markets Authority, as well as six subsidiary banks, registered, licensed and operating in five CSEE countries: Croatia, Slovenia, Bosnia & Herzegovina (where it operates two banks), Serbia and Montenegro. Addiko Group, through its six subsidiary banks, services as of 31 December 2019 approximately 0.8 million customers in CSEE, using a well-dispersed network of 179 branches and modern digital banking channels.

Based on its focussed strategy, Addiko Bank positioned itself as a specialist consumer and SME banking group with a focus on growing its Consumer and SME lending activities as well as payment services (its "focus areas"), offering unsecured personal loan products for consumers and working capital loans for its SME customers funded largely by retail deposits. Addiko Group's Mortgage lending, Public Lending and Large Corporate lending portfolios (its "non-focus areas") have been gradually reduced over time thereby providing liquidity and capital for the gradual growth in its Consumer and SME lending.

Addiko Bank delivers a modern customer experience in line with its strategy of providing straightforward banking – "focus on essentials, deliver on efficiency and communicate simplicity". Banking products and services have been standardised, especially in the Consumer segment and the SME segment, to improve efficiency, reduce risks and maintain asset quality, and have, particularly in the Large Corporates Segment, been further tailored to better meet customer needs.

On 12 July 2019 Addiko Bank became a listed company on the Vienna Stock Exchange, which reduced the participation of AI Lake (Luxembourg) S.à r.l., a company indirectly owned by funds advised by Advent International and the European Bank for Reconstruction and Development (EBRD), to 44.99%, with the remainder being free float. On its second trading day, 15 July 2019, Addiko Bank AG was admitted to the ATX (Austrian Traded Index) Prime market. The IPO represents a turning point for Addiko Bank AG from private to public ownership allowing the Group to continue growing as an independent public company.

2. General economic environment

2.1. Economic Development in 2019

Growth momentum remains quite strong by post-crisis standards and has even picked up in Croatia recently. Using an unweighted average, the pace of expansion across the five countries in which Addiko Bank operates slowed down from 4% in 2018 to an estimated 3.1% in 2019, with the Croatian economy recording an estimated growth of 3.0%.

Over the next two years, growth in the five countries of operation (unweighted average) is projected to slow down further – albeit only marginally, to 2.8% in both 2020 and 2021. There are two key reasons for this: (i) the weakening external demand, not least reflecting protectionist risks, and (ii) in some cases domestic capacity constraints, such as skills and labour shortages. Although most Addiko countries of operation continue to have quite high unemployment rates, these have fallen considerably in recent years, reflecting robust economic growth and consequently higher labour demand, as well as in many cases continued outward migration. These trends are highly likely to continue in the next 2-3 years, which will add further positive impetus to wage and private consumption growth.

Monetary conditions remain very loose, reflecting subdued inflation trends across most of Europe and ultra-loose European Central Bank (ECB) policy. Supply side factors in particular, such as depressed energy prices, indicate that inflationary pressure will not emerge anytime soon. Inflation has picked up somewhat from 2014-2016 levels but will remain at historically low levels. The main determining factor for credit growth in the next 2 to 3 years will be the stance of the ECB. This makes sense, considering the very strong trade and investment integration between Addiko countries and their fixed exchange rate regimes. Since September 2019, the ECB is offering negative interest rates for deposits (deposit rates reduced to -0.5%) and restarted its asset purchase programme in the volume of EUR 20 billion per month, while keeping its refinancing rate unchanged at 0%.

Croatia is still experiencing a positive point credit cycle, as evidenced by a 3.2% lending growth to the non-financial private sector in 2019, which represented a firmly positive trend. Also, a credit demand from households has been stronger than that from companies, which supported private consumption growth.

In Croatia, real GDP growth accelerated to an estimated 3% last year (from 2.7% in 2018), not least thanks to tourism season surprising on the upside. However, for 2020-2021 Vienna Institute for International Economic Studies (wiiw) projects a growth deceleration to 2.7% per year on account of the weakening external demand. The Croatian government aims to join the ERM 2 by January 2021 at the latest, paving the way for euro accession two years later. To this end, the country committed itself to implement reforms in six policy areas, three of which are in the banking sector. The assessment of the country's progress in its application to join the ERM 2 (and the European Banking Union) by the ECB and the European Commission is expected in June-July 2020. Credit growth in Croatia has been sustained exclusively thanks to borrowing by households, whereas loans to the corporate sector have been declining slightly (by 1.7% as of November 2019, year-on-year).

2.2. Market reports on Consumer Lending in CSEE

Addiko Bank AG commissioned two independent market reports with the aim of providing a detailed analysis of the Central and Southeast European Consumer Lending markets in which Addiko Bank operates. Both reports were published in March 2019 and are available in the Press Releases 2019 section of www.addiko.com.

The first, released by the Vienna Institute for International Economic Studies in Austria (wiiw), provides a detailed overview of the macroeconomic backdrop of the region, the banking market as well as the regulatory environment with a focus on unsecured consumer lending.

The second report published by Lafferty Group, London gets to the heart of the topic and analyses the unsecured consumer lending business opportunity in the region.

3. Significant events in the financial year 2019

3.1. Addiko Group goes public

On 12 July 2019, the shares of Addiko Bank AG were admitted to the Official Market of the Vienna Stock Exchange and started trading in the ATX Prime market segment.

Based on the total number of 19,500,000 shares and the offering price of EUR 16.00 per share, reflecting market capitalization of EUR 312.0 million this IPO was at that time the third and largest listing in the top segment of the Vienna Stock Exchange of the year and was the largest listing in the European financial sector in 2019.

On its second trading day, 15 July 2019, Addiko Bank AG was admitted to the ATX (Austrian Traded Index) Prime market.

As announced on 12 August 2019 by Citigroup Global Markets Limited, acting as Stabilization Manager, the Greenshoe Option was exercised in full (975,000 shares) herewith confirming the free float of circa 55% after the stabilization period of 30 days.

3.2. Rating agency Moody's assigns first-time ba2 Baseline Credit Assessment to Addiko Bank AG

On 4 April 2019, Moody's Investors Service assigned for the first-time a ba2 Baseline Credit Assessment (BCA) and Adjusted BCA and a Ba2(cr)/NP(cr) Counterparty Risk Assessments to Addiko Bank AG. Concurrently, the rating agency assigned a Ba3 long-term and NP short-term deposit ratings and counterparty risk ratings to Addiko Bank AG. The outlook on Group's long-term deposit rating is stable.

On 11 October 2019, Moody's assigned a Ba3 long-term local currency rating to Addiko Group's planned issuance of Subordinated Tier 2 Notes and placed the rating on review for upgrade. Concurrently, the rating agency placed on review for upgrade Addiko Group's long- and short-term Ba3/NP deposits ratings, as well as the its long- and short-term Ba2(cr)/NP(cr) Counterparty Risk Assessments (CR Assessments) and Ba3/NP Counterparty Risk Ratings analysis.

On 6 December 2019 Moody's confirmed Addiko Bank AG's ratings (outlook stable) concluding the rating review for Addiko opened on 11 October 2019 to reflect Addiko Bank's announcement on 19 November 2019 to postpone a planned issuance of subordinated debt.

The said rating concerns Addiko Bank AG, and not Addiko Bank Croatia.

3.3. Transformation towards out-of-branch sales and digital development

3.3.1. Greater customer experience with efficient distribution transformation

Addiko Bank is dedicated to delivering the straightforward banking promise and ensuring great customer experience. An important part of this goal is further development and seamless integration of the Bank's digital channels across all customer touchpoints.

Accordingly, Addiko Bank has started a process of transforming its distribution model to keep close to the market's and customer's continuously evolving needs.

A target mix of channels was planned and is currently being implemented in line with promise for convenience and simplicity that Addiko Bank gives to its customers. The changes are visible on several levels: customers have more options in terms of cash handling by having access to more self-service tools, inside Addiko Bank's branches or in stand-alone locations. The Bank's digital capabilities are being continuously developed with the mission to improve and enrich the user experience on the mobile app and the internet banking platform as well as to offer customers and non-customers end-to-end digital solutions for obtaining a loan.

Addiko Bank is also capitalizing on one of its best capabilities: transforming the classic branch employee role into a more complex one, empowering them to go outside the branch and serve customers at their workplace. Under the Bank@Work label, a team comprised of Addiko Bank's sellers using mobile technology is continuously delivering the convenience promise to thousands of customers at their place of work. The contribution of Bank@Work in 2019 remained strong at 25%.

3.3.2. Digital transformation

Addiko Bank's successes over the past years were to a great extent possible due to digital strategy being an essential part of the business strategy in both driving and supporting the change in order to reflect the transformation in banking business and customer expectations.

Therefore, Addiko Bank is continuously working on modernizing, improving and digitally transforming its business on all levels - process, procedural, operational, production, service with these reflecting the Bank's dedication to providing the straightforward banking.

In February 2019 Addiko Bank launched a unique and for Croatian market the first ever 'Addiko Virtual Branch' which enabled a completely e2e digital lending process, from requests to approvals without any physical interaction. It enabled current account opening as well, also without any need for the customer to visit a physical branch at any time. 'Addiko Virtual Branch' is available for customers of all banks. With 'Addiko Virtual Branch' the Bank presented the future of banking - completely digital, simple, straightforward, fast and tailored to the needs of modern customers.

In November, 'Addiko Virtual Branch' received the "Retail Banking Europe Award 2019" as it was recognized as the "Best Product/Service Innovation" in retail banking in the whole of Europe. The Retail Banking Europe Awards are presented to the most innovative banking institutions and are considered recognition for the best retail banking practices.

Digital transformation by creating new digital capabilities remains one of Addiko Bank's strategic focus points, as it continues to invest in digital solutions that are an essential foundation to delivering on the business boosting convenience and speed-based value proposition. For the Consumer segment the share of consumer loans sold digitally improved to 11.7% in 2019, with 'Addiko Virtual Branch' contributing 25% of total digital sales.

3.3.3. Branches

As of year-end 2019 Addiko Bank operates a total of 46 branches. In the second half of the year 10 branches were closed, which is in line with the Bank's strategy, digital focus and market trends that show a strong shift towards digital services. The Network optimization resulted in the Bank having optimally sized physical distribution to deliver the Addiko Bank's Consumer and SME focused strategy in context of the increasing customers' preference for digital channels. At the same time with its integrated approach Addiko Bank provides its customers with a seamless customer experience, which is also exemplified through unique digital services such as the 'Addiko Virtual Branch'.

With the desired clicks & bricks balance Addiko Bank is able to leverage customer experience and provide a high-quality service that corresponds with the customer needs and modern trends.

3.4. Continuous cost management and efficiency gains

With a continued focus on process optimisation and establishing a lean, efficient, agile and integrated organisation, a further consolidation of the existing IT applications and landscape was conducted during 2019.

This ensures Addiko Bank is well positioned for further significant improvement of the overall efficiency and with positive effects expected on the cost-to-income ratio (CIR).

Several cost initiatives were executed in the second half of 2019. The positive impact, predominantly resulting from back office optimisation and branch closures with a total decrease of more than 100 FTE, will contribute to a reduction of the cost base in the 2020 financial year.

Addiko Bank expects that its operating expenses for 2020 demonstrate a continuation of the 2019 performance.

3.5. Review of the business strategy

After the successful implementation of its original business strategy (established following the change of ownership in July 2015) and the extensive positioning as a "specialist bank", Addiko Bank has been refining its strategy to differentiate itself from the universal banking models prevalent in Croatia and the CSEE region by focusing on daily banking activities for which convenience and speed can command higher margins. Such services consist mainly of transactions requiring low or no advisory support, suitable to standardisation and delivery over digital channels.

Addiko Bank accordingly, as a specialist bank, focuses on higher risk adjusted yield businesses and lending to Consumer and SME customers in the "real economy", consisting of manufacturing, production, trade, agriculture and tourism businesses with a proven cash flow producing track record. The underserved market offers attractive growth which will be achieved through the convergence with European standards, particularly once digital banking capabilities are expanded in the market.

Addiko Bank delivers a modern customer experience in line with its strategy of providing straightforward banking – "focus on essentials, deliver on efficiency and communicate simplicity". Banking products and services have been standardised and refined, to improve efficiency, promote simplicity and increase customer convenience while at the same time reducing risks and maintaining asset quality.

Based on this approach, Addiko Bank reached its goal of transforming the business towards strategic core segments with a focus on growing its Consumer and SME lending activities as well as payment services (its "focus areas"). Addiko Bank is focusing primarily on unsecured personal loans for consumers and working capital loans for its SME customers which are funded largely by retail deposits. The Addiko Group's Mortgage portfolio, Public Finance and Large Corporates lending portfolios (its "non-focus areas") were gradually reduced over time, with repayments by customers exceeding the new business generated in those areas, thereby providing liquidity and capital for the growth in its Consumer and SME lending. Any new lending products in "non-focus" areas are offered on an opportunistic basis only, primarily to retain existing, profitable customers. Furthermore, the Bank continued its journey of building a distinctive, integrated operating model with significant focus on digital capabilities.

Building on its successful initial strategy, Addiko Bank will take further steps to become the bank of choice for selected products with executional excellence, serving basic banking needs with convenient origination and prompt delivery.

3.6. Changes to the Management Board

With the resignation by Jasna Širola the COO responsibilities have with 23 September 2019 been distributed between Management Board members.

4. Financial development of the Bank

4.1. Analysis of profit or loss statement

in HRK million

	2019	2018	Change (%)
Net interest income	481.1	462.5	4.0%
Net fee and commission income	190.4	174.1	9.4%
Net trading income	33.1	33.8	(2.1%)
Net investment income	75.4	10.5	618.1%
Net foreign exchange differences	5.6	3.6	55.6%
Other operating income	29.8	30.3	(1.7%)
Operating income	**815.4**	**714.8**	**14.1%**
Personnel expenses	(223.8)	(232.9)	(3.9%)
Depreciation	(36.9)	(16.8)	119.6%
Amortization	(13.0)	(9.9)	31.3%
Other operating expenses	(205.9)	(236.2)	(12.8%)
Operating expenses	**(479.6)**	**(495.8)**	**(3.3%)**
Net impairment loss on financial assets	(28.4)	(29.6)	(4.1%)
Other impairment losses and provisions	(147.8)	(1.2)	12216.7%
Profit before tax	**159.6**	**188.2**	**(15.2%)**
Income tax	(2.9)	(17.3)	(83.2%)
Net profit for the year	**156.7**	**170.9**	**(8.3%)**

Net interest income increased to HRK 481.1 million, compared to HRK 462.5 million in 2018. Compared to the prior year, **net interest margin** increased to 2.6% (2018: 2.3%). Increasing share in higher margin Consumer and SME lending, the Bank's dedicated focus on risk-adjusted pricing, supported by excess liquidity optimisation via early repayment of HRK 738.6 million hybrid line to Addiko Group executed in May 2018 (leading to year-on-year saving in amount of HRK 20.8 million) and ongoing deposit price and volume optimisation compensated decrease in interest income arising from run-down of non-focus portfolio (mortgages, public and large corporates) and in average lower bond portfolio comparing to 2018.

Net fee and commission income increased to HRK 190.4 million (2018: HRK 174.1 million) as a consequence of growth in Consumer lending and new fee models resulting with higher income from packages, transactions and bankassurance.

The **other operating result** (including trading, investment, foreign exchange and other operating income) showed a positive result of HRK 143.9 million (2018: HRK 78.2 million). Year-on-year development is mainly arising from increase in net investment income highly impacted by successful sale of financial instruments obtained in a settlement Agreement concerning a large Croatian retailer in amount of HRK 31 million.

Operating expenses decreased to HRK 479.6 million (2018: HRK 495.8 million) reflecting relentless focus on running the bank efficiently. Personnel expenses decreased predominantly resulting from back office optimisation and some branch closures executed in second half of 2019. Increase in depreciation is mainly arising from application of IFRS 16 starting from 1st of January 2019 according to which lease contracts that convey right to use an asset are initially measured at cost and subsequently depreciated while in 2018 rent expenses have been presented under Other operating expenses. Increase in amortization reflects additional investments to grow the business and enhance the digital capabilities.

Constant strong collection and rehabilitation efforts contributed to further NPE decrease during 2019 (total reduction amounts to HRK 544.6 million) of which most significant part is coming from secured debt sale transaction in retail segment. Additionally, constant focus on both, early collection and existing NPL collection / recovery, are also strongly influencing positive NPE portfolio development through 2019. These activities also resulted with restructuring of larger retailer exposure in HY 2019 with positive impact on NPE portfolio and provisioning stock.

Risk costs for 2019 ended up in amount of HRK 28.4 million (local GAP), and with inclusion of off-balance sheet items, total YTD risk costs amounts to HRK 25.4

million, which was significantly below budgeted figures for 2019. Favourable movements of performing portfolio resulted in positive movements of risk costs for this portfolio, while low NPL inflow, significant repayments (including mentioned secured debt sale transaction), and recovery also led to positive movements of risk costs within defaulted portfolio.

Other impairments and provisions amounted to HRK -147.8 million in 2019 (2018: HRK -1.2 million) and are predominantly a result of legal provisions mainly driven by the recent development in relation to legal matters on CHF currency clauses in Croatia. 2018 has been positively impacted by a one-off release of a provision arising from successful sale of Hypo Alpe-Adria-Leasing in amount of HRK 12.1 million.

Taxes on income amounted to HRK -2.9 million (2018: HRK -17.3 million) as a result of changes on in temporary differences and adjustment of deferred tax assets on losses carried forward.

4.2. Analysis of statement of financial position

in HRK million

	2019	2018	Change (%)
Assets			
Cash and cash balances	2,879.1	3,124.6	(7.9%)
Trading assets	122.4	99.1	23.5%
Derivative financial assets	4.3	5.7	(24.6%)
Loans and receivables from banks	63.8	2.5	2452.0%
Loans and receivables from customers	10,172.7	10,075.6	1.0%
Investment securities	4,234.6	4,607.2	(8.1%)
Investment property	16.7	6.1	173.8%
Property and equipment	283.5	203.2	39.5%
Intangible assets	51.7	59.9	(13.7%)
Non-current assets and disposal groups classified as held for sale	5.1	22.4	(77.2%)
Deferred tax assets	84.4	101.7	(17.0%)
Current tax assets	-	0.7	(100.0%)
Other assets	51.0	71.7	(28.9%)
Total assets	**17,969.3**	**18,380.4**	**(2.2%)**

Total assets of Addiko Bank decreased to HRK 17,969.3 million (2018: HRK 18,380.4 million) mainly as a result of excess liquidity optimisation and strategic reduction of non-focus loans and receivables from customers.

Excess liquidity optimization was primarily done via reduction of interest rates on customer deposits that induced a reduction of customer deposit volumes. Decrease of named positions was funded through reduction of Bank's excess Cash and cash balances position and Investment securities.

Loans and receivables from customers increased by 1,0% to HRK 10,172.7 million (2018: HRK 10,075.6 million) as a result of successful implementation of the business strategy and repositioning within the market, thus realizing significant growth of new disbursements in strategic higher margin business segments and products, while strategically reducing the non-focus loan book (i.e. mortgage, large corporate and public portfolio).

Property and equipment increased to HRK 283.5 million (2018: HRK 203.2 million) mainly as a result of application of IFRS 16 starting from 1st of January 2019 according to which lease contracts that convey right to use an asset are initially measured at cost and subsequently depreciated.

Non-current assets and disposal groups classified as held for sale decreased to HRK 5.1 million (2018: HRK 22.4 million) mainly as a result of reclassification of one specific real estate asset to position **Investment properties** in amount of HRK 11 million and additional impairments on the existing real-estate portfolio held for sale.

Tax assets decreased to HRK 84.4 million (2018: HRK 102.4 million) as a result of the changes in temporary differences and adjustment of deferred tax assets on losses carried forward.

in HRK million

	2019	2018	Change (%)
Liabilities and equity			
Derivative financial liabilities	8.9	4.2	111.9%
Current accounts and deposits from banks	116.5	178.3	(34.7%)
Current accounts and deposits from customers	12,976.6	13,597.2	(4.6%)
Borrowings	347.2	358.9	(3.3%)
Subordinated debt	1,031.9	1,028.4	0.3%
Provisions	240.7	131.0	83.7%
Other liabilities	228.8	183.8	24.5%
Total liabilities	**14,950.6**	**15,481.8**	**(3.4%)**
Share capital	2,558.9	2,558.9	0.0%
Profit for the year	156.7	170.9	(8.3%)
Retained earnings/(accumulated losses)	62.8	(6.0)	(1146.7%)
Reserves	240.3	174.8	37.5%
Total equity	**3,018.7**	**2,898.6**	**4.1%**
Total liabilities and equity	**17,969.3**	**18,380.4**	**(2.2%)**

On the liabilities' side, the **Current accounts and deposits to customers** decreased to HRK 12,976.6 million (2018: HRK 13,597.2 million) as a result of price and volume optimization.

Provisions (non-loan portfolio related) increased to HRK 240.7 million (2018: HRK 131.0 million). The development was mainly driven by additions to legal provisions in connection with recent development in relation to legal matters on CHF currency clauses.

The development of **equity** from HRK 2,898.6.0 million in 2018 to HRK 3,018.7 million in 2019 is mainly the result of profit after tax realized throughout 2019, a dividend payment in the amount of HRK 102 million, and effects of sale or revaluation of financial assets measured at fair value through other comprehensive income.

5. Analysis of non-financial key performance indicators

The Human Resources strategy underpins Addiko Bank's cultural transformation. The Operating Model enables employees at all levels to drive for results via teamwork and cross-boundary collaboration. Building strong Human Resources processes in performance, recruitment, talent management, learning and leadership development is needed to ensure agility in employee attitudes and capabilities.

The performance and talent management frameworks are key processes used to identify, develop, reward high performance and talented employees. The two processes support Addiko Bank's journey to build a great place to work, aiming to become an employer of choice, attracting talents and offering opportunities for employees to develop their careers.

In 2019, there were many areas of focus in Human Resources, with new training programs piloted to develop leadership capabilities. Standardizing Human Resources processes was continued in the areas of recruitment, on boarding and personnel cost reporting. A new online platform was introduced decreasing the administration and elevating digital recruitment. A key enabler of culture change was continuous internal communication and implementation of leadership standards for managers and desirable work-place behaviours (the Addiko 'Values and Behaviours'). These were integrated into the Performance Management, Talent and Leadership Development programs and initiatives of 2019.

At year-end 2019 Addiko Bank had 915 FTEs (2018: 1,025). The Bank continues its cultural and business transformation. The focus remains upon ensuring motivated, skilled employees and a values-based corporate culture are integrated into daily performance. In 2019 Addiko Bank was awarded the Employer Partner Certificate through which the Bank is recognized for having high standards and well-defined Human Resource management processes. In Croatia in 2019, fewer than 100 companies were awarded this certificate. Addiko Croatia has also supported other Addiko Banks to elevate their standards in Human Resources management.

In 2019, Addiko Bank implemented the Group Diversity and Inclusion Policy confirming its commitment to building a diverse and inclusive workforce which leads to a broader range of experience, knowledge, skills and values. It is also one of the factors that enhance the functioning of Addiko Bank with a variety of views, independent opinions, balanced decision making and innovations. Addiko Bank also became one of the 16 reputable companies that joined the 'Initiative 30' which stands for equal opportunities for career advancements and higher representation of women in Management and Supervisory Boards.

6. Internal control system for accounting procedures

Addiko Bank has an internal control system (ICS) for accounting procedures, in which suitable structures and processes are defined and implemented throughout the organization.

The aim of Addiko Bank's internal control system is to ensure effective and efficient operations, adequate identification, measurement and mitigation of risks, prudent conduct of business, reliability of financial and non-financial information reported both internally and externally, and compliance with laws, regulations, supervisory requirements and the institution's internal rules and decisions.

The Internal Control System (ICS) consists of a set of rules, procedures and organizational structures which aim to:

- ensure that corporate strategy is implemented,
- achieve effective and efficient corporate processes,
- safeguard the value of corporate assets,
- ensure the reliability and integrity of accounting and management data,
- ensure that operations comply with all existing rules and regulations.

The particular objectives regarding Addiko Bank accounting procedures are that the ICS ensures all business transactions are recorded immediately, correctly and in a uniform way for accounting purposes. The implementation of the internal control system in relation to the financial reporting process is also set out in the internal rules and regulations.

The internal control system of the Bank is built on a process-oriented approach. Addiko Bank deploys control activities through process documentation which incorporates the tracking and documentation of each process, including the information about process flow according to the internal guidelines for process management.

The overall effectiveness of the internal controls is monitored on an ongoing basis. Monitoring of key risks is part of the Bank's daily activities as well as periodic evaluations by the business lines, internal control functions, risk management, compliance and internal audit.

Regular internal control system monitoring and promptly reporting on internal control deficiency and escalation to relevant stakeholders (e.g. committees) is established. Internal control deficiencies, whether identified by a business line, internal audit, or other control functions are reported in a timely manner to the appropriate management level for further decision and addressed promptly.

Internal Audit performs independent and regular reviews of compliance with legal provisions and internal rules.

The internal control system itself is not a static system but is continuously adapted to the changing environment. The implementation of the internal control system is fundamentally based on the integrity and ethical behaviour of the employees. The Management Board and the leadership team actively and consciously embrace their role of leading by example and by promoting high ethical and integrity standards and establishing a risk and control culture within the organization that emphasizes and demonstrates to all levels of employees the importance of internal controls.

7. Consolidated non-financial report

In line with the EU regulation Addiko Bank fully complies with the Directive 2014/95/EU and the rules on disclosure of non-financial and diversity information. The Bank operates and manages social and environmental related topics by continuously developing its responsible approach to business. Accordingly, the Bank's non-financial report includes policies it implemented in relation to environmental protection, social responsibility and treatment of employees, respect for human rights, anti-corruption and bribery and diversity. The non-financial report is prepared as a consolidated independent report and is published online on Addiko Group's website www.addiko.com.

8. Research & Development

Addiko Bank does not conduct any Research & Development activities.

9. Outlook 2020

The benign macroeconomic environment in the countries of operations of Addiko Group is expected to continue in the coming years. While on a global scale a slowdown of growth and continuing deflationary impulses are anticipated, the growth in CSEE economies remains resilient. Nevertheless, it seems unlikely that the growth rates of the countries of operation will reach the levels recorded in 2018.

Based on an unweighted average, it is estimated that growth will remain comparably steady after a slowdown from 2018 to 2019, with expected rates for Croatia well above more developed European economies. The robust economic development is reflected by the reduction of unemployment rates and consequently higher labour demand. This development is expected to continue over the next years and to provide further stimulus to private consumption growth. Concurrently, Croatia is benefiting from a positive credit cycle with lending growth to the non-financial private sector projected to be firmly positive. However, considering the strong integration with the countries in which Addiko operates, ECB's loose monetary policy and the subdued level of inflation across most of Europe will be decisive for the credit growth.

At the same time, developments in the European banking sector are expected to continue. On the one hand, the sector is facing challenges in the form of a low interest rate environment, general price pressure due to excess liquidity in the market, and steadily increasing regulatory requirements, which are having a negative impact on the profitability of banks. Furthermore, these activities of regulatory authorities, such as the implementation of consumer protection mechanisms that limit lending growth in the consumer sector, will in turn also have a negative influence on private consumption, further affecting the profitability. On the other hand, the pressure on market participants to innovate is increasing, and with it the need to make comprehensive investments.

In view of these challenges, but also these opportunities, Addiko Bank has continued to push ahead with its digital transformation and was thus able to take further significant steps towards achieving its medium-term goals. Addiko Bank has successfully positioned itself as innovative and targeted specialist lender in the areas of unsecured consumer loans and loans for small and medium-sized enterprises. This will enable Addiko Bank to continue to expand its growth and margins profitably in the coming year, while maintaining a balanced risk/return profile and a balance sheet financed primarily by deposits with a good equity base.

The main risk factors influencing the banking industry include worsened interest rate outlooks, political or regulatory measures against banks as well as some geopolitical and global economic uncertainties. Addiko Bank will continue to execute its focused strategy as a consumer and SME specialist lender in the CSEE region, and further drive digital transformation along the value proposition convenience and speed. Rigorously managed risk-return profile and self-funding principle will remain strong anchors in the strategy. Cost of risk is expected to increase slightly along with the loan book shifting toward the focus areas unsecured consumer and SME lending.

Addiko Bank d.d. Zagreb

Mario Žižek	Ivan Jandrić	Dubravko-Ante Mlikotić	Joško Mihić
President of the Management Board	Member of the Management Board	Member of the Management Board	Procurator

Responsibility for the Financial Statements

Pursuant to the currently enacted Croatian Accounting Law, the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with statutory accounting requirements for banks in Croatia which give a true and fair view of the financial position and financial performance of the Addiko Bank d.d. Zagreb ("the Bank") for the reporting period.

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

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

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

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

The financial statements set out on pages 25 to 144 prepared in accordance with statutory accounting requirements for banks in Croatia, as well as the appendix to the financial statements presented on pages 145 to 161 prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Banks (Official Gazette 42/18), were authorized by the Management Board on 27 February 2020 for issue to the Supervisory Board and are signed below to signify this as follows:

Mario Žižek	Ivan Jandrić	Dubravko-Ante Mlikotić	Joško Mihić
President of the Management Board	Member of the Management Board	Member of the Management Board	Procurator

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Addiko Bank d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited financial statements of Addiko Bank d.d. (the Bank), which comprise statement of financial position as at 31 December 2019, statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the Bank's financial position as at 31 December 2019, and its financial performance and its 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 the Audit Act and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

This version of the auditor's 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 auditor's report takes precedence over translation.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Impairment allowances for expected credit losses on loans and receivables from customers	How our audit addressed the key audit matter
For the accounting policies refer to Specific accounting policies Note 2(i). For the additional information regarding identified key audit matter, refer to Note 14, Note 20 and Note 41.1 to the financial statements.	
Credit risk represents one of the most important types of financial risks to which the Bank is exposed to. Determining appropriate methods and models by the Management to measure and manage credit risk is therefore one of the most important areas in safeguarding the Bank's capital. As part of the credit risk management process, appropriate determination impairment allowances for expected credit losses on loans and receivables from customers represent key considerations for Bank's Management. In determining both the timing and the amount of impairment allowances for expected credit losses on loans and receivables from customers, the Management exercises significant judgement in relation to the following areas: • Use of historic data in the process of determining risk parameters • Estimation of the credit risk related to the exposure • Assessment of stage allocation • Assessment on the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether significant increase in credit risk has occurred, leading to changes in stage allocation and the required measurement of lifetime expected credit losses • Expected future cash flows from operations • Valuation of collateral and assessment of realization period	In order to address the risks associated with impairment allowances for expected credit losses on loans and receivables from customers, identified as key audit matter, we have designed audit procedures that allowed us to obtain sufficient appropriate audit evidence for our conclusion. We performed following audit procedures with respect to area of loans and receivables from customers: • Reviewing the Bank's methodology for recognizing impairment allowances for expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9 within statutory reporting framework • Obtaining understanding of control environment and internal controls implemented by the Management within the process of measuring impairment allowance for expected credit losses • Evaluating design and inspecting implementation of identified internal controls relevant to the process of measuring impairment allowance for expected credit losses • Testing identified relevant controls for operating effectiveness • Assessing quality of historical data used in determination of risk parameters and evaluating the appropriateness of IT elements and data processing • Disaggregating loans and receivables from customers account balance based on stage allocation and relevant segments for the purposes of sample selection - for Stage 3, individually assessed loans and receivables, the criteria for selection included, but was not limited to, client's credit risk assessment, industry risk, days past due, etc.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Since determination of appropriate impairment allowances for expected credit losses on loans and receivables requires use of complex models (generally dependent on IT elements) and significant judgement from the Management, process of measuring expected credit losses may be exposed to management bias. Those facts led us to conclude that impairment allowances for expected credit losses on loans and receivables from customers, recognized by the Bank in accordance with the statutory reporting framework for banks in Republic of Croatia, as key audit matter in our audit of the Bank's financial statements for the year ended 31 December 2019.	• Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of loans and receivables allocated to Stage 1 and Stage 2, focusing on: i. models applied in stage allocation and transitions between stages ii. assumptions used by the Management in the expected credit loss measurement models iii. criteria used for determination of significant increase in credit risk iv. assumptions applied to calculate probability of default v. methods applied to calculate loss given default vi. methods applied to incorporate forward-looking information vii. mathematical accuracy of the minimal prescribed rate applied through independent recalculation viii. re-performing calculation of expected credit losses on a selected sample. • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of individually assessed non-performing loans and receivables allocated to Stage 3, which included: i. assessment of borrower's financial position and performance following latest credit reports and available information ii. critical assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations taking into consideration borrower's financial status and performance iii. reviewing and critically assessing estimated value of collateral and estimated realisation period as well as associated legal agreements and supporting documentation to assess the legal right to and existence of collateral iv. critical assessment of discount rates used in the estimation of the expected cash flows from operations and/or collateral and review of supporting, legal, and other documentation to determine the existence of insurance and lien items v. re-performing calculation of expected credit losses by applying our own independent judgment and assumptions, based on our industry experience, on to calculation and comparing derived result of the impairment losses per certain sampled loans and receivables with the ones provided by the Management.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

<table>
<tr><th>Provisions for litigations</th><th>How the matter was addressed in our audit</th></tr>
<tr><td colspan="2">For the accounting policies refer to Significant accounting policies, Specific accounting policies, Note 2 r – Provisions for liabilities and charges. For the additional information regarding identified key audit matter, refer to Note 15, Note 31 and Note 41.11.2 to the financial statements.</td></tr>
<tr><td>Banks are often exposed to various litigations or court cases, results of which may have adverse effects on their financial performance.

In order to adequately reflect potential adverse effects, the Bank assess the requirement for provisions in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets. The provision is recognized if, and only if a present, legal or constructive, obligation exist as a result of past events, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and if a reliable estimate of the obligation is determined.

Due to the complexity involved in these litigation matters, Management's judgment regarding recognition and measurement of provisions for these legal proceedings is inherently uncertain and might change over time when the outcomes of the legal cases are determined and concluded. Therefore, the judgement over the existence of present obligation, the probability of payment being required to settle the court cases' obligation and a reliable estimate of such amount requires Management to consider risks and uncertainties that inevitably surround legal proceedings in order to ensure appropriate recording and disclosures in the financial statements.

Considering the recent legal developments in Croatia and specific rulings of Croatian Courts in 2019, provisions for court cases have been determined as other key audit matter in our audit of the Bank's financial statements for the year ended 31 December 2019.</td><td>In order to address the risks associated with provisions for court cases, identified as another key audit matter, we have designed audit procedures that allowed us to obtain sufficient appropriate audit evidence for our conclusion.

Our audit procedures included, among others, the following:
• Discussion with the Management to obtain understanding on the assumptions considered when determining the recognition and measurement of provisions for court cases;
• Obtaining and reviewing opinions and representations of external legal advisors in order to assess as to whether they sufficiently support Management's judgement over the assumptions considered and the amounts of provision recognised;
• Reconciling opinions and representations of external legal advisors on initiated legal cases to the accounting records;
• Obtaining and reviewing the calculation of the provisions for court cases and assess whether the assumptions underpinning the valuation of these provisions are based on appropriate and available information from external parties and the market, thus representing Management's best estimate of the provision amount;
• Assessing the mathematical accuracy of the provision calculation by performing a recalculation of the expected provisions for court cases.
• Evaluating the appropriateness of disclosures relating to provisions for court cases in accordance with IAS 37 requirements</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report.

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

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 which is included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Management Report includes required disclosures as set out in the Article 21 of the Accounting Act.

Based on the procedures performed during our audit, to the extent we are able to assess it, we report that:

1) Information included in the other information is, in all material respects, consistent with the attached financial statements.

2) Management Report for the year 2019 has been prepared, in all material respects, in accordance with Article 21 of the Accounting Act.

Based on the knowledge and understanding of the Bank and its environment, which we gained during our audit of the financial statements, we have not identified material misstatements in the other information. We have nothing to report in this respect.

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

Management is responsible for the preparation and fair presentation of the financial statements 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 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 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 to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism 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 control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Bank 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 Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on Other Legal and Regulatory Requirements

We were appointed as the statutory auditor of the Bank by the shareholders on General Assembly Meeting held on 12 March 2019 to perform audit of accompanying financial statements. Our total uninterrupted engagement has lasted 6 years and covers period 1 January 2014 to 31 December 2019.

We confirm that:

- our audit opinion on the accompanying financial statements is consistent with the additional report issued to the Audit Committee of the Bank on 28 February 2020 in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council;
- no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.

During the year, we have provided certain other services to the Bank in addition to the statutory audit. The following audit and non-audit services have been provided for 2019:

- audit of IFRS and AI Lake Group reporting package,
- quarterly reviews of IFRS Group reporting packages
- audit of regulatory financial statements for the purposes of CNB,
- statutory review and assessment of compliance of the general information technology controls

Services provided during the year represent allowed audit and non-audit services in accordance with the EU Regulation.

Pursuant to the Decision of the Croatian National Bank on the Form and Content of the Bank Annual Financial Statements (Official Gazette No 62/08, hereinafter: "the Decision") the Bank's management has prepared the forms, as presented in the Appendix to these financial statements on pages 147 to 163, which comprise balance sheet as at 31 December 2019, income statement, statement of changes in equity and the statement of cash flow for the year then ended, together with reconciliation to the financial statements. These forms and the accompanying reconciliation to the financial information are the responsibility of the Bank's Management and, do not represent components of the financial statements prepared in accordance with statutory accounting requirements for banks in Croatia, which are set out on pages 24 to 146, but rather a requirement specified by the Decision. The financial information provided in those forms has been derived from the financial statements.

Mtonžetić

Marina Tonžetić
Director and Certified Auditor

Deloitte d.o.o.

2 March 2020
Radnička cesta 80,
10 000 Zagreb,
Croatia

Statement of Profit or Loss

For the year ended 31 December 2019

	Note	Unaudited* 2019 in EUR million	Unaudited* 2018 in EUR million	2019 in HRK million	2018 in HRK million
Interest income	4	76.6	84.6	569.8	627.4
Interest expense	5	(11.9)	(22.2)	(88.7)	(164.9)
Net interest income		**64.7**	**62.4**	**481.1**	**462.5**
Fee and commission income	6	30.9	29.0	229.7	214.8
Fee and commission expense	7	(5.3)	(5.5)	(39.3)	(40.7)
Net fee and commission income		**25.6**	**23.5**	**190.4**	**174.1**
Net trading income	8	4.4	4.6	33.1	33.8
Net investment income	9	10.1	1.4	75.4	10.5
Net foreign exchange differences	10	0.8	0.5	5.6	3.6
Other operating income	11	4.0	4.1	29.8	30.3
Total operating income		**109.6**	**96.5**	**815.4**	**714.8**
Personnel expenses	12	(30.1)	(31.3)	(223.8)	(232.9)
Depreciation	22,23	(5.0)	(2.3)	(36.8)	(16.8)
Amortization	24	(1.7)	(1.3)	(13.0)	(9.9)
Other operating expenses	13	(27.7)	(31.9)	(206.0)	(236.2)
Total operating expenses		**(64.5)**	**(66.8)**	**(479.6)**	**(495.8)**
Net impairment loss on financial assets	14	(3.8)	(4.0)	(28.4)	(29.6)
Other impairment losses and provisions	15	(19.9)	(0.2)	(147.8)	(1.2)
Profit before tax		**21.4**	**25.5**	**159.6**	**188.2**
Income tax	16	(0.4)	(2.3)	(2.9)	(17.3)
Profit for the year		**21.0**	**23.2**	**156.7**	**170.9**

*Statement of Profit or Loss items reported in the audited financial statements, are translated into EUR using the middle exchange rate of the Croatian National Bank as at 31 December of the respective year and are presented only for information and do not represent a part of the audited financial statements (see Note 2 for the information on exchange rates used).

Accompanying notes form an integral part of these financial statements.

Statement of Other Comprehensive Income

For the year ended 31 December 2019

	Unaudited* 2019 in EUR million	Unaudited* 2018 in EUR million	2019 in HRK million	2018 in HRK million
Profit for the year	**21.0**	**23.2**	**156.7**	**170.9**
Items that will not be reclassified subsequently to profit or loss:				
Revaluation of land and buildings	-	(0.1)	0.2	(1.1)
Non-current assets and disposal groups classified as held for sale	(0.5)	(0.2)	(3.6)	(1.5)
Movement in fair value of equity instruments at fair value through other comprehensive income	1.5	0.3	11.3	2.4
Income tax relating to items that will not be reclassified subsequently to profit or loss	(0.2)	-	(1.4)	-
Net other comprehensive income not to be reclassified subsequently to profit or loss	**0.8**	**(0.0)**	**6.5**	**(0.2)**
Items that may be reclassified subsequently to profit or loss:				
Movement in fair value of debt instruments at fair value through other comprehensive income	9.7	(4.9)	72.0	(36.6)
Income tax relating to items that may be reclassified subsequently to profit or loss	(1.7)	0.9	(13.0)	6.6
Net other comprehensive income that may be reclassified subsequently to profit or loss	**8.0**	**(4.0)**	**59.0**	**(30.0)**
Total net other comprehensive income for the year	**8.8**	**(4.0)**	**65.5**	**(30.2)**
Total comprehensive income for the year	**29.8**	**19.2**	**222.2**	**140.7**
Attributable to equity holders of the Bank	29.8	19.2	222.2	140.7

*Statement of Other Comprehensive Income items reported in the audited financial statements, are translated into EUR using the middle exchange rate of the Croatian National Bank as at 31 December of the respective year and are presented only for information and do not represent a part of the audited financial statements (see Note 2 for the information on exchange rates used).

Accompanying notes form an integral part of these financial statements.

Signed on behalf of Addiko Bank d.d. Zagreb on 27 February 2020:

Mario Žižek	Ivan Jandrić	Dubravko-Ante Mlikotić	Joško Mihić
President of the Management Board	Member of the Management Board	Member of the Management Board	Procurator

Statement of Financial Position

As at 31 December 2019

	Note	Unaudited* 2019 in EUR million	Unaudited* 2018 in EUR million	2019 in HRK million	2018 in HRK million
Assets					
Cash and cash balances	17	386.8	421.2	2,879.1	3,124.6
Trading assets	18	16.4	13.4	122.4	99.1
Derivative financial assets	37	0.6	0.8	4.3	5.7
Loans to and receivables from banks	19	8.6	0.3	63.8	2.5
Loans to and receivables from customers	20	1,366.8	1,358.3	10,172.7	10,075.6
Investment securities	21	569.0	621.1	4,234.6	4,607.2
Investment property	22	2.2	0.8	16.7	6.1
Property and equipment	23	38.1	27.4	283.5	203.2
Intangible assets	24	6.9	8.1	51.7	59.9
Non-current assets and disposal groups classified as held for sale	25	0.7	3.0	5.1	22.4
Deferred tax assets	16	11.3	13.7	84.4	101.7
Current tax assets	16	-	0.1	-	0.7
Other assets	26	7.0	9.8	51.0	71.7
Total assets		**2,414.4**	**2,478.0**	**17,969.3**	**18,380.4**

Accompanying notes form an integral part of these financial statements.

Statement of Financial Position (continued)

As at 31 December 2019

	Note	Unaudited* 2019 in EUR million	Unaudited* 2018 in EUR million	2019 in HRK million	2018 in HRK million
Liabilities					
Derivative financial liabilities	37	1.2	0.6	8.9	4.2
Current accounts and deposits from banks	27	15.7	24.0	116.5	178.3
Current accounts and deposits from customers	28	1,743.6	1,833.1	12,976.6	13,597.2
Borrowings	29	46.7	48.4	347.2	358.9
Subordinated debt	30	138.6	138.6	1,031.9	1,028.4
Provisions	31	32.3	17.7	240.7	131.0
Other liabilities	32	30.7	24.6	228.8	183.8
Total liabilities		**2,008.8**	**2,087.0**	**14,950.6**	**15,481.8**
Equity					
Share capital	33	343.8	345.0	2,558.9	2,558.9
Profit for the year		21.0	23.2	156.7	170.9
Retained earnings/(accumulated losses)		8.5	(0.8)	62.8	(6.0)
Reserves	34	32.3	23.6	240.3	174.8
Total equity		**405.6**	**391.0**	**3,018.7**	**2,898.6**
Total liabilities and equity		**2,414.4**	**2,478.0**	**17,969.3**	**18,380.4**

*Statement of Financial Position items reported in the audited financial statements, are translated into EUR using the middle exchange rate of the Croatian National Bank as at 31 December of the respective year and are presented only for information and do not represent a part of the audited financial statements (see Note 2 for the information on exchange rates used).

Accompanying notes form an integral part of these financial statements.

Signed on behalf of Addiko Bank d.d. Zagreb on 27 February 2020:

Mario Žižek	Ivan Jandrić	Dubravko-Ante Mlikotić	Joško Mihić
President of the Management Board	Member of the Management Board	Member of the Management Board	Procurator

Statement of Changes in Equity

For the year ended 31 December 2019

in HRK million

	Share capital	Legal and other reserves	Revaluation reserve	Fair value reserve	Accumulated (losses) / profit	Total
Balance at 1 January 2018	**2,558.9**	**5.3**	**15.3**	**51.5**	**223.4**	**2,854.4**
Profit for the year	-	-	-	-	170.8	170.8
Other comprehensive loss for the year, net of tax	-	-	(2.2)	(28.0)	-	(30.2)
Total comprehensive income for the year	-	-	*(2.2)*	*(28.0)*	*170.8*	*140.6*
Distribution of profit for the year 2017:						
Legal reserves	-	122.7	-	-	(122.7)	-
Other reserves	-	4.6	-	-	(4.6)	-
Dividend	-	-	-	-	(102.4)	(102.4)
Other changes	-	5.6	-	-	0.3	5.9
Balance at 31 December 2018	**2,558.9**	**138.2**	**13.1**	**23.5**	**164.8**	**2,898.5**
Profit for the year	-	-	-	-	156.7	156.7
Other comprehensive income/(loss) for the year, net of tax	-	-	(2.8)	68.3	-	65.5
Total comprehensive income for the year	-	-	*(2.8)*	*68.3*	*156.7*	*222.2*
Distribution of profit for the year 2018:	-	-	-	-	-	-
Dividend	-	-	-	-	(102.4)	(102.4)
Other changes	-	-	-	-	0.4	0.4
Balance at 31 December 2019	**2,558.9**	**138.2**	**10.3**	**91.8**	**219.5**	**3,018.7**

Accompanying notes form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2019

in HRK million

	Note	2019	2018
Cash flow from operating activities:			
Profit before tax		159.6	188.2
Adjustments:			
Impairment and provisions	14,15	176.1	30.7
Depreciation and amortization	22,23,24	49.9	26.7
Net unrealized loss from financial assets and liabilities at fair value through profit or loss		4.1	1.1
Gain on disposal of tangible assets	11	(1.2)	(2.7)
Interest expense recognized in statement of profit or loss	5	88.7	164.9
Interest income recognized in statement of profit or loss	4	(569.8)	(627.4)
Other non-monetary items		(5.4)	(8.4)
Change in assets and liabilities from operating activities:			
Balances with Croatian National Bank		22.8	198.5
Deposits and loans with credit institutions		(9.1)	96.3
Loans and advances to other customers		(123.0)	424.1
Securities and other financial instruments at fair value through other comprehensive income		523.7	146.9
Securities and other financial instruments held for trading		(16.6)	(64.1)
Non-trading securities and other financial assets mandatorily at fair value through profit or loss		(0.5)	11.7
Other assets from operating activities		2.9	23.2
Deposits from financial institutions		(57.7)	84.6
Transaction accounts of other customers		341.4	(88.9)
Demand deposits		468.3	1,399.2
Term deposits		(1,490.7)	(3,090.0)
Derivative financial liabilities and other trading liabilities		(4.0)	(0.2)
Other liabilities from operating activities		(19.8)	(43.2)
Interest received from operating activities		561.9	583.8
Dividends received from operating activities		0.1	0.1
Interest paid from operating activities		(104.6)	(217.8)
Net cash flow from operating activities		**(2.9)**	**(762.7)**
Cash flow from investing activities:			
Increase in tangible and intangible assets		(45.7)	(41.7)
Net cash flow from investing activities		**(45.7)**	**(41.7)**
Cash flow from financing activities:			
Net decrease of borrowings from financing activities		(12.0)	(215.1)
Net decrease of subordinated debt		-	(738.5)
Dividend paid		(102.4)	(102.4)
Repayment of principal portion of lease liabilities		(16.1)	-
Other proceeds from financing activities		-	5.2
Net cash flow from financing activities		**(130.5)**	**(1,050.8)**
Net decrease in cash and cash equivalents		**(179.1)**	**(1,855.2)**
Cash and cash equivalents at the beginning of the year		**2,036.0**	**3,920.4**
Effects of exchange rate changes on cash and cash equivalents		8.8	(29.2)
Cash and cash equivalents at the end of the year	39	**1,865.7**	**2,036.0**

Accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2019

1. GENERAL INFORMATION ABOUT THE BANK

a) History and incorporation

Addiko Bank d.d. Zagreb is a joint stock company registered in Croatia. The registered office of the Bank is located in Slavonska avenija 6.

The Bank is a fully owned subsidiary of Addiko Bank AG, Vienna.

On 12 July 2019 Addiko Bank AG was listed on the Vienna Stock Exchange, which reduced the participation of AI Lake (Luxembourg) S.à r.l., a company indirectly owned by funds advised by Advent International and the European Bank for Reconstruction and Development (EBRD), to 44.99%, with the remainder being free float.

During 2019 the operations were conducted through the Bank's head office located in Zagreb and through branches organized into regional centres Zagreb and Central Croatia, Dalmatia, Istria and Kvarner and Slavonia and Baranja.

b) Activity

The Bank was granted a full banking license by the Croatian National Bank ("CNB") in 1996 and started its banking activities in September 1997. This license includes, but is not limited to the following activities:

- taking deposits in local and foreign currencies,
- approving loans in local and foreign currencies,
- buying and selling of local and foreign currencies,
- opening nostro accounts abroad,
- transactions with securities, precious metals and bills of exchange, in Croatia and abroad,
- performing local and international payments, and
- issuing guarantees and letters of credit to customers.

1. GENERAL INFORMATION ABOUT THE BANK (CONTINUED)

c) Members of the Supervisory Board

The members of the Supervisory Board of the Bank during the year 2019 were as follows:

Hans-Hermann Anton Lotter	President	Appointed as at 15 October 2015
Csongor Bulcsu Nemeth	Deputy President	Appointed as Member as at 01 March 2016 Elected as Deputy President as at 30 October 2019
Nicholas John Tesseyman	Member	Appointed as at 1 December 2015
Tomislav Perović	Member	Appointed as at 01 March 2016
Ferenc Joó	Member	Appointed as at 11 October 2018

d) Members of the Management Board

The members of the Management Board of the Bank during the year 2019 were as follows:

Mario Žižek	President	Appointed as at 1 January 2016
Ivan Jandrić	Member	Appointed as at 1 January 2016
Dubravko-Ante Mlikotić	Member	Appointed as at 09 March 2016
Jasna Širola	Member	Appointed as at 09 March 2016 Resigned as at 22 September 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The financial statements have been prepared in accordance with statutory accounting requirements for banks in Croatia. Banking operations in Croatia are subject to the Croatian Credit Institutions Act, in accordance with which financial reporting is regulated by the Accounting Act and the CNB. These financial statements have been prepared in accordance with the regulatory accounting requirements as defined by the CNB.

The statutory accounting regulations for Banks in Croatia are based on International Financial Reporting Standards as adopted in the European Union ("IFRS") adjusted by any specific accounting related regulations brought by the CNB. There are several differences between the accounting regulations of the CNB and the International Financial Reporting Standards.

One of them is in the collective assessment of losses for balance sheet and off-balance sheet items for which no losses are identified on an individual basis, i.e. for performing loans and certain other financial assets, and off-balance sheet liabilities classified into risk category A (Stage 1 and Stage 2). For these items the regulations require that a credit institution performs collective assessment with future oriented model under IFRS 9 (expected losses). Different approaches are applied, depending on the stage a transaction is allocated to. Stage 1 requires the recognition of twelve month expected credit losses and if there is a significant increase in credit risk, the loss allowance must be increased up to the amount of the expected lifetime loss (Stage 2). CNB regulation *("Decision on the classification of exposures into risk categories and the method of determining credit losses")* requires that these provisions shall not be less than 0.8% of the total exposure to items qualifying for such latent losses.

Also, IFRS 9 requires that future cash flows of a group of financial assets that are collectively evaluated for impairment should be estimated on the basis of historical loss experience for such assets with credit risk characteristics similar to those in the group and provisioning levels per these losses cannot be prescribed generally by any means.

A further difference between IFRS and the accounting regulations of the CNB relates to the determination of impairment losses by discounting the estimated cash flows of the impaired asset at the instrument's original effective interest rate. The Bank calculates impairment losses on individually significant items by estimating the future cash flows and discounting these estimated amounts at the instrument's original effective interest rate, while additionally the CNB prescribes minimum levels of impairment losses against certain specifically identified impaired exposures, which may be different from the impairment losses required to be recognized in accordance with IFRS.

A further difference between IFRS and the accounting regulations of the CNB relates to provisions for passive legal cases. According to the "*Decision on the obligation to make provisions for litigations conducted against a credit institution*" the Bank shall make provisions for litigation for which no risk of loss has been established, or for which a cash outflow of less than 10% of the total amount has been estimated if the total amount of the litigation exceeds 0.1% of the credit institution's assets according to its audited financial statements for the previous year. The provisions shall be made in the amount of the estimated cash outflow but not less than 1% of the total amount of the litigation, while according to IFRS, in such a situation no provision shall be recognized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Application of new and revised International Financial Reporting Standards as adopted by EU

Only new standards, interpretations and their amendments that are relevant for the business of the Bank are listed below. The impact of all other standards, interpretations and their amendments not yet adopted is not expected to be material.

The following new standards, interpretations and amendments to existing standards are mandatory for periods beginning on 1 January 2019:

Standard	Name	Description	Effective for financial year
IFRS 16	Leases (New Standard)	Replacing IAS 17	2019
IFRS 9	Financial Instruments (Amendments)	Prepayment Features with Negative Compensation	2019
IFRIC 23	Uncertainty over Income Tax Treatments	Accounting for uncertainties in income taxes	2019
IAS 28	Amendments to IAS 28 Investments in Associates and Joint Ventures	Long term Interests in Associates and Joint Ventures	2019
IAS 19	Amendments to IAS 19 Employee Benefits	Plan Amendment, Curtailment or Settlement	2019
IFRS 3, IFRS 11, IAS 12, IAS 23	Annual Improvements to IFRS Standards 2015-2017 Cycle	IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes, IAS 23 Borrowing Costs	2019

IFRS 16 "Leases"

IFRS 16 "Leases" was published by the IASB in January 2016 and took effect on 1 January 2019, superseding the previous guidance IAS 17 "Leases", IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC–15 "Operating Leases – Incentives" and SIC–27 "Evaluation the Substance of Transactions Involving the Legal Form of a Lease". IFRS 16 introduces significant changes to lessee accounting and requires new disclosures of information on lease contracts.

Leases in which the Bank is a lessee

At inception of a contract entered into on or after 1 January 2019, the Bank assessed whether a contract is or contains a lease. A lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. This assessment involves the exercise of judgment about whether the contract contains an identified asset, whether the Bank obtains substantially all the economic benefits from the use of that asset throughout the period of use, and whether the Bank has the right to direct the use of the asset.

The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle, remove or restore the underlying asset, less any lease incentives received. The right of use asset is subsequently depreciated over the shorter of the lease term or the useful life of the underlying asset using the straight-line method. The Bank also assess the right of use asset for impairment when such indicators exist.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Application of new and revised International Financial Reporting Standards as adopted by EU (continued)

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Thus, all lease obligations are generally recognised pursuant to the "right-of-use" approach in the statement of financial position. The only exception is for leases with a total lease term of 12 months or less, as well as for leases for which the underlying asset has a low value in new, with the IASB considering a lease to be of low value if it is USD 5 thousand or less. In such cases the lease contracts are recognised off the statement of financial position and lease expenses are accounted on straight-line basis over the remaining lease term.

Lease payments generally include fixed payments, variable payments that depend on an index or a rate, and amounts expected to be payable under a residual value guarantee. Prolongation options, termination options and purchase options are also considered.

Recognising right of use assets on the assets side of the statement of financial position, and the corresponding lease liabilities on the equity and liabilities side, leads to an increase in total assets/equity and liabilities. Since only liabilities increase on the equity and liabilities side and all other items remain the same, the equity ratio decreases. Profit and loss is also impacted. The total amount of the expenses charged over the term of the lease remains the same, but temporal distribution and allocation to different parts of profit and loss change. Pursuant to IAS 17, expenses with regard to operating leases are generally recognised on a straight-line basis at the actual amount of effected payments in the operating expense. Pursuant to IFRS 16, as has already been in effect for finance leases, expenses are to be split between interest expenses and depreciation. As interest expenses are calculated based on the effective interest method and decrease over the term of the lease, but depreciation is generally carried out on a straight-line basis, this results in a digressive development of expenses with a shift of expenses into the earlier periods of the term. Interest expenses are to be reported under the Net interest income. Additionally, since the annual depreciation of right of use assets under IFRS 16 is lower than the lease rates and all other items remain the same, the operating expenses will decrease.

Subsequent to initial measurement, the lease liability is reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right of use asset, or profit or loss if the right of use asset is already reduced to zero.

Under IFRS 16, lease incentives are recognised as part of the measurement of right of use assets and lease liabilities whereas under IAS 17 they resulted in recognition of a lease incentive liability and amortised as a reduction of rental expense on a straight-line basis.

In the statement of cash flows, interest payments and the redemption of lease liabilities are presented under cash flows from financing activities.

Under IFRS 16, right of use assets are tested for impairment in accordance with IAS 36 Impairment of assets. Previously under IAS 17 it was required to recognise a provision for onerous lease contracts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Application of new and revised International Financial Reporting Standards as adopted by EU (continued)

IFRS 16 requires that a lessee recognises as a part of its lease liability only the amount expected to be payable under a residual value guarantee which was provided by a lessee to a lessor, rather than the maximum amount guaranteed as required by IAS 17.

Leases in which the Bank is a lessor

With regard to lessors, the provisions of IAS 17 were largely adopted into the new IFRS 16. Lessor accounting thus still depends on which party bears the material opportunities and risks in the lease asset.

For the classification and recognition of leases as a lessor, the economic effect of the lease contract prevails over the legal ownership of the leased asset. A finance lease according to IAS 17 is a lease that substantially transfers all the risks and opportunities associated with the ownership of an asset to the lessee, all other leases are operating leases.

The Bank applies the derecognition and impairment requirements of IFRS 9 to the net investment in the lease.

Under operating leases, the lessor presents the leased assets at cost less scheduled depreciation over the useful life of the asset and less any impairment loss.

Presentation in the financial statements

The Bank as a lessee presents the right of use assets in the line item “Property and equipment” in the statement of financial position. Lease liabilities are presented in the line item “Other liabilities” in the statement of financial position. Depreciation charge for the right of use assets are presented in the line item “Depreciation” in the statement of profit or loss. The interest expense on lease liabilities is presented in the line item “Interest expense” in the statement of profit or loss.

The Bank as a lessor presents the leased real estate under an operating lease in the line items “Property and equipment” or “Investment property”. Ongoing lease payments and gains and losses on disposal are reported under the line item “Other operating income” or "Other operating expenses", scheduled depreciation is reported under “Depreciation” and impairment, if any, under “Other impairment losses and provisions”.

Impact of application of IFRS 16 “Leases”

The standard specifies the basic principles regarding recognition, presentation and disclosure of lease contracts for both contractual parties, i.e. the lessee and the lessor. The central idea of this new standard is that the lessee generally recognises all leases and the respective rights and obligations in the statement of financial position. The main objective of IFRS 16 is thus to avoid a presentation of leases off the statement of financial position. Under IFRS 16, leases are no longer classified as either “operating” or “finance” by lessees. Instead, a right of use asset and a lease liability are recognised for all leases henceforth.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for a consideration.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Application of new and revised International Financial Reporting Standards as adopted by EU (continued)

The list of practical expedients which the Bank has made use of is provided in *Transition and transitional disclosures*.

The Bank assessed the impact on its financial statements including an assessment of whether it exercises any lease renewal options and the extent to which the Bank chooses to use practical expedients and recognition exemptions. Mainly land and buildings are subject to lease. Generally, the Bank uses its incremental borrowing rate as the discount rate.

As at 31 December 2018, the Banks's future minimum lease payments under non-cancellable operating leases amount to HRK 108.4 million on an undiscounted basis under IAS 17, which the Bank assessed for potential recognition as additional lease liabilities under the new standard IFRS 16.

The Bank has only a minor impact from the implementation of this new standard, with no effect in the opening retained earnings and a total capital impact of -15 basis points due to an increase of the total assets in the amount of HRK 64.4 million (including prepayments) and an increase of lease liabilities in the amount of HRK 70.2 million.

The same provisions as under IAS 17 still apply under IFRS 16 to determine whether a lease is an operating lease or a finance lease. If a lease is an operating lease, the asset remains in the Bank's statement of financial position and the revenue generated from the lease is reported in the income statement. If a lease is a finance lease, a lease receivable at the net investment value is recognised.

The combination of a straight-line depreciation of the right of use assets and the effective interest rate method applied to the lease liabilities results in a higher total charge to profit or loss in the initial years of the lease, and decreasing expenses during the latter part of the lease term.

The application of IFRS 16 has an impact on the Bank's statement of cash. Under IAS 17, all lease payments on operating leases were presented as part of cash flow from operating activities. Under IFRS 16, lessees must present short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities. Cash paid for the interest portion of lease liability must be presented as either operating activities or financing activities. The Bank has chosen to include the interest paid as well as cash payments for the principal portion as part of financing activities.

Transition and transitional disclosures

The Bank applied IFRS 16 initially on 1 January 2019, using the modified retrospective approach. There was no cumulative effect of adopting IFRS 16 to be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. For contracts under which the Bank acts as lessee, a right of use asset at the amount equal to the lease liability was recognised in the statement of financial position (subsequently right of use assets were adjusted for accruals and prepayments). The Bank applied IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4. The Bank did not apply IFRS 16 to any leases on intangible assets. The Bank used the exemptions for short term leases and leases of low value whereby the right of use asset is not recognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Application of new and revised International Financial Reporting Standards as adopted by EU (continued)

For leases previously classified as operating leases under IAS 17, the applicable discount rate is the lessee's incremental borrowing rate determined at the date of initial application.

The Bank applied the following practical expedients and exemptions:

- option which allows to adjust the right of use asset by the amount of provision for onerous leases recognised in the statement of financial position immediately before the date of initial application was applied,
- practical expedients not to recognise right of use assets but to account for the lease expenses on straight-line basis over the remaining lease term for short-term leases (12 month) and for leases for which the underlying asset is of low value were applied,
- initial direct costs from the measurement of the right of use asset at the date of initial application were excluded,
- the Bank used a hindsight, such as determining the lease term if the contract contains options to extend or terminate the lease,
- non-lease components have to be separated from lease components (expedient not to separate non-lease components was not applied),
- contracts which were not classified as leases under IAS 17 in conjunction with IFRIC 4 were not reviewed under the definition of a lease in IFRS 16,
- instead of performing an impairment review on the right of use assets at the date of initial application, the Bank has relied on its historical assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

Reconciliation of undiscounted operating lease commitments according to IAS 17 as of 31 December 2018 and lease liabilities according to IFRS 16 recognised on 1 January 2019:

in HRK million

	Carrying amount
Off-balance operating lease obligations (IAS 17) undiscounted as at 31 December 2018	**108.4**
(-) Discounting (using incremental borrowing rate as at 1 January 2019)	(5.5)
Off-balance operating lease obligations (IAS 17) discounted	**102.9**
(+) Minimum lease payments on finance lease as at 31 December 2018	0.0
(-) Exemption for short-term leases	(1.3)
(-) Exemption for leases of low-value assets	(17.7)
(+/-) Extension and termination options reasonably certain to be exercised	(0.4)
(+) Variable lease payments based on an index or a rate	0.0
(-) Residual value guarantees	0.0
(+/-) Other	(13.3)
Lease liabilities recognized as a result of the initial application of IFRS 16 as at 1 January 2019	**70.2**

Position "Other" refers mainly to non-deductible VAT that was included in off-balance operating lease obligations under IAS 17.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Application of new and revised International Financial Reporting Standards as adopted by EU (continued)

Recognition of right of use assets at the date of initial application of IFRS 16:

in HRK million

	Carrying amount
Right of use assets unadjusted as at 1 January 2019	**70.2**
(+) Prepayments and accruals	14.2
Right of use assets recognized as a result of the initial application of IFRS 16 as at 1 January 2019	**84.4**

The recognised right of use assets relates to the following types of assets:

in HRK million

	Carrying amount
Land and buildings	60.2
Vehicles and other equipment	24.2
Total	**84.4**

The weighted average lessee's incremental borrowing rate applied to lease liabilities on 1 January 2019 was 1.8% for land and buildings and 1.5% for vehicles and other equipment.

IFRS 9 "Financial instruments"

Based on the amendments of IFRS 9 introduced in 2017, financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract – leading to the situation that from the perspective of the holder of the asset there may be a so-called negative compensation (the prepayment amount could be less than unpaid amount of principal and interest) – can be measured at amortised cost or at fair value through other comprehensive income instead of at fair value through profit or loss. To qualify for amortised cost measurement, the asset must be held within a "held to collect" business model. The amendment is effective for annual reporting periods beginning on or after 1 January 2019. This amendment does not result in any significant changes for the Bank.

IFRIC 23 "Uncertainty over Income Tax Treatments"

The IFRS Interpretation IFRIC 23 "Uncertainty over Income Tax Treatments" clarifies application of recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over whether the tax treatment will be accepted by the tax authority. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty (either the most likely amount method or the expected value method) and accounting for circumstances change or when there is new information that affects the judgements. The interpretation is applicable for annual reporting periods beginning on or after 1 January 2019. This interpretation does not result in any significant changes for the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Application of new and revised International Financial Reporting Standards as adopted by EU (continued)

IAS 28 "Investments in Associates and Joint Ventures"

The IAS 28 amendments clarify that companies should account for long term interests in an associate or joint venture, to which the equity method is not applied, using IFRS 9. This includes the impairment requirements in IFRS 9. The amendments to IAS 28 are effective for accounting periods beginning on or after 1 January 2019. This amendment does not result in any significant changes for the Bank.

IAS 19 "Employee benefits"

The IAS 19 amendments have been issued in February 2018 and clarify how companies determine pension expenses when changes to a defined pension plan occur. The amendments require a company to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan (amendment, settlement or curtailment). An entity has to recognise any reduction in a surplus (even if that surplus was not previously recognised because of the impact of the asset ceiling which is recognised in other comprehensive income) in profit or loss as part of past service costs, or a gain or loss on settlement. The amendments to IAS 19 are effective for accounting periods beginning on or after 1 January 2019. This amendment does not result in any significant changes for the Bank.

Annual improvements to IFRS Standards 2015-2017 Cycle

The collection of annual improvements to IFRSs 2015-2017 includes amendments to the following standards:

- IFRS 3 "Business Combinations" clarifies that obtaining control of a business that is joint operation is a business combination achieved in stages. The acquirer should remeasure its previously held interest in the joint operation at fair value at the acquisition date.
- IFRS 11 "Joint Arrangements" clarifies that the party obtaining joint control of a business that is joint operation should not remeasure its previously held interest in the joint operation.
- IAS 12 "Income Taxes" clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits, i.e. in profit or loss, other comprehensive income or equity.
- IAS 23 "Borrowing costs" clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale are included in that general pool.

All amendments are effective for annual periods beginning on or after 1 January 2019 with early application permitted. These amendments do not result in any significant changes for the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Application of new and revised International Financial Reporting Standards as adopted by EU (continued)

The following new standards, interpretations and amendments to existing standards issued by the IASB and adopted by the EU were not yet effective:

Standard	Name	Description	Effective for financial year
Conceptual Framework	Amendments to Conceptual Framework	Amendments to references to Conceptual Framework	2020
IAS 1 and IAS 8	Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	New definition of materiality	2020
Amendments to IFRS 9, IAS 39 and IFRS 7	Amendments to IFRS 9 Financial instruments, IAS 39 Financial Instruments: Recognition and Measurement, and IFRS 7 Financial Instruments: Disclosures	Interest rate benchmark reform	2020

The amendments to references to the **Conceptual Framework** in IFRS Standards have been issued in March 2018. Some Standards include references to the 1989 and 2010 versions of the Framework. The IASB has published a separate document *Updating References to the Conceptual Framework* which contains consequential amendments to affected Standards so that they refer to the new Framework. These amendments will be effective for accounting periods beginning on or after 1 January 2020. This amendment will not have any significant impact for the Bank.

The **IAS 1** and **IAS 8** amendments introduce the new consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements as a whole. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The new definition of material and the accompanying explanatory paragraphs helps reporting entities to decide whether information should be included in their financial statements. This amendment will not result in any significant changes for the Bank.

The amendments to **IFRS 9, IAS 39 and IFRS 7** deals with issues affecting financial reporting in the period before the replacement of existing interest reference rates (interbank offered rates) with alternative risk free rates and address the implications for specific hedge accounting requirements in IFRS 9 and IAS 39. An entity will apply these hedging requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. These amendments will be effective for accounting periods beginning on or after 1 January 2020. This amendment will not result in any significant changes for the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Application of new and revised International Financial Reporting Standards as adopted by EU (continued)

The following new standards and interpretations issued by the IASB have not yet been adopted by the EU and were therefore not adopted early by the Bank. The table also includes the expected effective dates:

Standard	Name	Description	Effective for financial year
IFRS 3	Amendments to IFRS 3 Business Combinations	Amendments to definition of business	2020
Amendments to IAS 1	Amendments to IAS 1 Presentation of Financial Statements	Classification of liabilities as current or non-current	2022

The **IFRS 3** amendments provide application guidance to help distinguish between an acquisition of business and a purchase of group of assets that does not constitute a business. The amendments to IFRS 3 will be effective for accounting periods beginning on or after 1 January 2020. This amendment will not result in any significant changes for the Bank.

The amendments to IAS 1 clarify the requirements for classifying liabilities as current or non-current. These amendments to IAS 1 will be effective for accounting periods beginning on or after 1 January 2022. These amendments will not result in any significant changes within the Bank.

Standards used for comparative periods

Until 31 December 2018 IAS 17 “Leases” was the applicable standard for lease contracts. On the 1 January 2019 it was superseded by IFRS 16 “Leases”. As IFRS 16 is not applied fully retrospectively the comparative period is still under the regime of IAS 17.

In the comparative period, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet) at lease inception. Leases that transferred substantially all the risks and rewards of ownership we classified as finance lease and the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset. Other leases were classified as operating leases and were not recognised in the Bank’s statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the lease term.

For the classification and recognition of leases as a lessor, the economic effect of the lease contract prevails over the legal ownership of the leased asset. A finance lease according to IAS 17 is a lease that substantially transfers all the risks and opportunities associated with the ownership of an asset to the lessee, all other leases are operating leases.

The lease contracts concluded by the Bank as a lessor are classified as finance or operating leases. Finance leases are reported under “Loans and receivables from customers” in the statement of financial position at the net investment value (present value). The lease payments received under finance leases are split into an interest portion with an impact on profit or loss, as well as debt repayments without an impact on profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Application of new and revised International Financial Reporting Standards as adopted by EU (continued)

Under operating leases, the lessor presents the leased assets at cost less scheduled depreciation over the useful life of the asset and less any impairment loss. The Bank as a lessor presents the leased real estate under an operating lease in the line items “Property and equipment” or “Investment property”. Ongoing lease payments and gains and losses on disposal are reported under the line item “Other operating income” or "Other operating expenses", scheduled depreciation is reported under “Depreciation” and impairment, if any, under “Other impairment losses and provisions”.

c) Basis of preparation

These financial statements represent the general purpose financial statements of the Bank. The financial statements were prepared for the reporting period from 1 January 2019 to 31 December 2019 in compliance with the statutory accounting requirements for banks in Croatia.

The financial statements are presented in the Croatian currency, in millions of Kuna (HRK), unless stated otherwise. The tables shown may contain rounding differences.

The financial statements for the year ended 31 December 2019 have been prepared under the historical cost convention except for financial assets and liabilities at fair value in accordance with IFRS 9 *“Financial Instruments”* and revalued non-current assets. The accounting policies have been consistently applied, except where disclosed otherwise.

The financial statements have been prepared under the assumption that the Bank will continue to operate as a going concern.

In preparing the financial statements, the Bank’s management has made judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, as well as disclosure of commitments and contingent liabilities at the financial reporting date, and also the amounts of income and expenses for the period.

The estimates and associated assumptions based on historical experience and various other factors that are believed to be reasonable under the circumstances, as well as information available at the date of the preparation of the financial statements, forms the basis of making the judgments about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may significantly differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or both in the period of revision and future periods if the revision affects both current and future periods. Judgments made by the management in the application of applicable standards that have significant effects on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 3. The accounting policies have been consistently applied by the Bank and are consistent with those applied in previous years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Interest income and expense

Interest income and expense is recognized on the accrual basis, taking into account the effective rate of the asset and liability. Interest income and expense include the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing financial instrument and its amount at maturity calculated on an effective interest rate basis.

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, during a shorter period.

Loan origination fees, generated after the approval of the loans are deferred together with the related direct costs, and recognized as an adjustment to the effective rate of the loan over its life in "Interest income" in statement of profit or loss.

e) Fee and commission income and expense

Fee and commission income arises on financial services provided by the Bank and mainly comprises fees receivable from domestic and foreign payment transactions, fees receivable from customers for guarantees, letters of credit, foreign currency transactions and other services provided by the Bank.
Fee and commission income is credited to the income, when the corresponding service is provided.

f) Retirement benefit costs

The Bank does not have pension arrangements separate from the state pension system of the Republic of Croatia. This system requires that current contributions by the employer be calculated as a percentage of current gross salary payments; these expenses are charged to the statement of profit or loss in the period the related compensation is earned by the employee.
No liabilities arise to the Bank from the payment of pensions to employees in the future.

g) Foreign currency transactions

Transactions in foreign currencies are translated into HRK at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are translated into HRK at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the statement of profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated into the reporting currency at the foreign exchange rates ruling at the dates that the values were determined.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Foreign currency transactions (continued)

The principal rates of exchange set forth by the Croatian National Bank and used in the preparation of the balance sheet at the reporting dates were as follows:

31 December 2019	1 EUR = HRK 7.442580	1 USD = HRK 6.649911	1 CHF = HRK 6.838721
31 December 2018	1 EUR = HRK 7.417575	1 USD = HRK 6.469192	1 CHF = HRK 6.588129

h) Revenue from contracts with customers

Under the core principle of IFRS 15 "Revenue from Contracts with Customers" model, the Bank recognises revenue when the contractual obligation has been fulfilled, i.e. the control over the goods and services has been transferred. In doing so, revenue is to be recognised at the amount an entity expects to be entitled to as a consideration. IFRS 15 does not apply to leases within the scope of IFRS 16, insurance contracts within the scope of IFRS 4, financial instruments and other contractual rights or obligations within the scope of IFRS 9 "Financial Instruments", IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IAS 27 "Separate Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures", and non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

Consequently, interest income as well as dividend income are not within the scope of the revenue recognition standard. The Bank primarily generates revenue from financial instruments which are excluded from the scope of IFRS 15.

Bank derives its revenue from contracts with customers for the transfer of services over time and at a point in time.

i) Financial instruments

The presentation of the items in the statement of financial position as such reflects the nature of the financial instruments. For this reason, the classes have been defined according to those items in the statement of financial position which contain financial instruments in accordance with IFRS 9 "Financial Instruments".

A financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party.

Classification and measurement

Business models

All financial assets have to be assigned to one of the business models described below. It must be assessed for each solely payments of principal and interest ("SPPI") compliant financial asset at initial recognition, if it belongs to the following category:

- *Hold to collect:* a financial asset held with the objective to collect contractual cash flows.
- *Hold to collect and sell:* a financial asset held with the objective of both collecting the contractual cash flows and selling financial assets.
- *Other:* a financial asset held with trading intent or that does not meet the criteria of the categories above.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial instruments (continued)

In the infrequent case that the entity changes its business model for managing certain financial assets, a reclassification of all affected financial assets would be required. Such subsequent changes do not lead to reclassifications or prior period corrections. Sales due to increase in credit risk, sales close to maturity and infrequent sales triggered by a non-recurring event are not considered as contradicting the held to collect business model.

Contractual cash flow characteristics

For the assessment whether contractual cash flows are solely payments of principal and interest, "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, 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 a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest (“SPPI”), the Bank considers the contractual terms of the instrument and analyses the existing portfolio based on a checklist for SPPI criteria. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition, considering the following: contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms, terms that limit the Bank's claim to cash flows from specified assets and features that modify consideration for the time value of money.

Significant areas of judgements are unilateral changes in margins and interest rates, prepayment clauses, other contingent payment features, project financing and benchmark test for loans with interest mismatch features. That SPPI compliance is assessed as follows:

- The assessment of unilateral changes of margins and interest concluded that passing on costs related to the basic lending agreement, clauses designed to maintain a stable profit margin, and changes of the interest rate reflect the worsening of the credit rating, but are not SPPI harmful.
- The prepayment clauses are not critical if the prepaid amount reflects the outstanding principal, interest and fees associated with the early redemption. The prepayment fee has to be smaller than the loss of interest margin and loss of interest.
- Other contingent payment features are typically side business clauses. The penalty represents the increased costs for risk monitoring or the reimbursement of lost profit which is associated with the triggering event.
- Project financing was assessed whether there is a reference to the performance of the underlying business project. If there is no such reference and the borrower has adequate equity for the project to absorb losses before affecting ability to meet payments on the loan, it may pass the SPPI test.
- Loans with floating interest rates can contain interest mismatch features (fixation date is before the start of the period, reference rate´s tenor is different to the rate reset frequency, etc.). To assess whether the time value of money element of interest has been significantly modified (whether the interest mismatch feature could result in contractual undiscounted cash flows that are significantly different from benchmark deal), a quantitative benchmark test has to be performed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial instruments (continued)

When performing the benchmark test, at the initial recognition, contractual undiscounted cash flows of financial instrument are compared with the benchmark cash flow, i.e. contractual undiscounted cash flows that would arise if the time value of money element was not modified. The effect of the modified time value of money element is considered in each reporting period and cumulatively over the lifetime of the financial instrument. The benchmark test is based on a range of reasonable scenarios. The appropriate comparable benchmark financial instrument is the one with the same credit quality and the same contractual terms except for the modification, either real existing or hypothetical asset. If an entity concludes that the contractual (undiscounted) cash flows could be significantly different (10% threshold) from the (undiscounted) benchmark cash flows (either periodical or cumulative), the financial asset does not meet the condition in the IFRS 9 paragraphs 4.1.2(b) and 4.1.2A(b) and therefore cannot be measured at amortised cost or at fair value through other comprehensive income.

During 2019 and 2018, there were no financial instruments with interest mismatch features which would lead to the classification at fair value through profit or loss. Significant volumes of financial instruments with critical features are not expected due to the internal policy for new products which eliminates potentially SPPI non-compliant features.

Classification and measurement of financial assets and financial liabilities

Based on the business model and the contractual cash flow characteristics the Bank classifies financial instruments in the following categories:

- A financial asset is measured at amortised cost only if the object of business model is to hold the financial asset and the contractual cash flows are solely payments of principal and interest on the principal outstanding ("SPPI criteria").
- A financial asset is measured at fair value through other comprehensive income ("FVTOCI") if the asset is held in a business model in which assets are managed both in order to collect contractual cash flows or to sell them and the contractual cash flows are solely payments of principal and interest on the principal outstanding (simple loan feature).
- Financial assets that do not meet these criteria are measured at fair value through profit or loss ("FVTPL"). Furthermore, embedded derivatives are not separated from the financial host asset. The financial instrument is assessed in its entirety and measured at fair value through profit or loss.

A financial asset is recognised when the Bank becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at fair value including transaction costs (except for FVTPL financial instruments, for which transaction costs are recognised directly in the statement of profit or loss).

Purchases and sales of financial assets that are subsequently measured at fair value through other comprehensive income and financial assets that are subsequently measured at fair value through profit or loss are recognised at the trade date, i.e. the date on which the Bank becomes one of the counterparties assuming the obligation to purchase or sell the instrument.60

On initial recognition, a financial asset is classified into one of the categories set out below, the basis of this classification depends on the business model and the contractual cash flow characteristics of the financial asset. Subsequent measurement is determined by the classification category.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial instruments (continued)

Financial assets at amortised costs

A financial asset is classified and subsequently measured at amortised costs, if the financial asset is held in a hold to collect business model and the contractual cash flows are SPPI compliant. Financial assets are measured at fair value at initial recognition, minus the principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount and the maturity amount and adjusted for any impairment allowance. Interest income is presented in the line “Interest income”. Impairment is presented in the line “Net impairment loss on financial assets”. The major volume of financial assets of the Bank are measured at amortised cost.

Financial assets at fair value through other comprehensive income

A financial asset is classified and subsequently measured at fair value through other comprehensive income, if the financial asset is held in a hold to collect and sell business model and the contractual cash flows are SPPI compliant. Financial assets are measured at fair value with any movements being recognised in other comprehensive income and are assessed for impairment under the expected credit loss (“ECL”) model.

Interest income is presented in the line “Interest income”. Impairment is presented in the line “Net impairment loss on financial assets”. The difference between fair value and amortised cost is presented in “Fair value reserve” in the statement of changes in equity. The changes in fair value during the reporting period for debt instruments are presented in the line “Movement in fair value of debt instruments at fair value through other comprehensive income” in the statement of other comprehensive income. Gains and losses from derecognition are presented in the line “Net investment income” in the statement of profit or loss.

For equity instruments that are not held for trading, the Bank can make an irrevocable election at initial recognition to classify the instruments at FVTOCI. This election is available for each separate investment. All subsequent changes in fair value are presented in the line “Movement in fair value of equity instruments at fair value through other comprehensive income” in the statement of other comprehensive income without recycling in the statement of profit or loss.

The Bank has designated at FVTOCI investments a certain portfolio of equity instruments. This presentation alternative was chosen because the investments were made for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose these investments in the short or medium term.

Financial assets at fair value through profit or loss

A financial asset that is held for trading or that does not fall into the hold to collect nor hold to collect and sell business models shall be assigned into the other business model and is measured at fair value through profit or loss. In addition, the Bank may use option to designate some financial assets as measured at FVTPL. Interest income and dividend income are presented in the line “Interest income” and “Other operating income”, respectively. Gains and losses from revaluation and derecognition are presented in the line “Net trading income” and “Net investment income”, appropriately. In addition, any financial instrument for which the contractual cash flow characteristics are not SPPI compliant must be measured in this category, even if held in a hold to collect or hold to collect and sell business model.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial instruments (continued)

Non-trading financial assets consist of the two following subcategories and shall be assigned into the other business model and are measured at fair value through profit or loss.

- *Financial assets designated at fair value through profit or loss*

  At initial recognition, the Bank may irrevocably designate a financial asset that would otherwise be measured subsequently at amortised costs or FVTOCI, as measured at FVTPL, if such designation eliminates or significantly reduces a recognition and measurement inconsistency (i.e. "accounting mismatch") that would otherwise arise from measuring assets and liabilities or recognising the gains or losses on a different basis. Currently there is not such case in the Bank.

- *Financial assets mandatorily at fair value through profit or loss*

  Financial assets are classified in this category if their cash flows are not SPPI compliant or they are held as part of residual business models that are other than held for trading.

Equity instruments that are held for trading as well as equity instruments that are not held for trading (and they were not designated at FVTOCI at initial recognition) are measured at FVTPL.

When modification or exchange of financial liability measured at amortised cost that does not result in the derecognition is performed, any adjustment to the amortised cost of the financial liability arising from a modification or exchange is recognised in profit or loss at the date of the modification or exchange.

Changes to the fair value of liabilities designated at FVTPL resulting from changes in own credit risk of the liability are recognised in other comprehensive income, the remaining amount of the change in the fair value has to be presented in profit or loss.

There were no changes to the Bank's business model during 2019 and 2018.

Impairment

While applying the forward-looking ECL model, the Bank recognises ECL and updates the amount of ECL recognised at each reporting date to reflect changes in the credit risk of financial assets. The impairment standards applied measure ECL based on reasonable and supportable information that includes historical, current and forecast information, thus considering possible future credit loss events in different scenarios.

The lifetime ECL is the present value of expected losses that arise if borrowers' default on their obligations at some time during the complete lifetime of the financial assets with simultaneous consideration of probabilities of default as well as credit losses (loss given default).

Overview ECL calculation

The Bank determines an ECL amount on a probability-weighted basis as the difference between the cash flows that are due to the bank in accordance with the contractual terms of a financial instrument and the cash flows that the bank expects to receive. Although IFRS 9 establishes this objective, it generally does not prescribe detailed methods or techniques for achieving it.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial instruments (continued)

In determining the cash flows that the bank expects to receive, following the recommendation of the Global Public Policy Committee (“GPPC”), the Bank is using a sum of marginal losses approach whereby ECLs are calculated as the sum of the marginal losses occurring in each time period from the reporting date. The marginal losses are derived from individual parameters that estimate exposures and losses in the case of default and the conditional probability of default for each period (the probability of a default in time period X conditional upon an exposure having survived to time period X). The (lifetime) ECL is calculated for different scenarios separately, considering current and future forward looking information. The aggregation to the final ECL is performed at the end by probability weighting of the different individual scenarios.

The Bank calculates in total three outcomes: base case, optimistic case and pessimistic case while occasionally also some more adverse scenarios are simulated to understand dynamics and potential portfolio risks (cf. chapter “Forward-looking information”).

The observed period and the applied parameters within the ECL calculation depend on the maturity of the transaction, the IFRS 9 stage of the transaction and the macro scenarios applied. For Stage 1 the up to one year expected credit loss has to be considered while for Stage 2 and 3 the expected lifetime loss has to be recognised.

The probability of default (PD) parameters reflect the probability of default for a certain period. The PDs used for the ECL calculation are derived by models/methodology which were developed by the Bank’s internal model development unit. Generally, the models are based on Bank internal data and segment specific whenever possible and plausible. For certain parts of the portfolio (where no significant internal data is available), Group wide models are applied to reflect data availability and portfolio characteristics. In certain cases, also external data from rating agencies are applied for the same reason mentioned before. Methodological wise, an indirect modelling approach is chosen. This means that underlying existing Basel III methodology is used as a starting point and is adapted in a way to be fully IFRS 9 compliant. This includes the removal of any conservatism from the models, the inclusion of forward-looking point-in-time information within the methodology as well as the estimation of lifetime PD term structures.

Exposure at default (“EAD”) is an estimate of the exposure including repayments of principal and interest and expected drawdowns on committed facilities. EAD is specified as the gross carrying amount at time while using the effective interest rate to discount cash flows to a present value at the reporting date. In cases where no contractual maturity is given, quantitative and/or qualitative criteria are applied for determining cashflow structure (e.g. frames).

Loss given default (“LGD”) is an estimate of the economic loss under condition of a default. For the LGD parameter a simplified approach is chosen. The Bank incorporates internally calculated and expertly determined overall LGD values within the IFRS 9 ECL calculation. Those values are internally aligned while qualitative and/or quantitative checks are performed to ensure an adequate level.

In addition to the generalized ECL calculation based on internal estimated risk parameters/methodology a portfolio approach is applied for certain circumstances which cannot be appropriately differently considered within the general framework while being relevant for the reporting date. These aspects are related but not limited to data availability and quality, model/parameter weaknesses, limited timeseries and/or time lags in data. A formalized approach is defined to ensure a consistent and sound application within the overall calculation logic.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial instruments (continued)

Significant increase in credit risk

The Bank measures ECL in three stages as the deterioration in credit quality takes place. Namely, for Stage 1 up to 12-month ECL is reported and for Stage 2 and 3 the full lifetime expected credit loss is recognised.

Stage 1 begins as soon as a financial instrument is originated and up to 12-month ECL are recognised as an expense and a loss allowance is established. For financial assets, interest revenue is calculated by applying the effective interest rate to the gross carrying amount. Unless its credit quality changes, the same treatment applies every time until its maturity.

When credit quality is deemed to deteriorate significantly asset is moved into Stage 2, referring to the Bank's staging criteria (as described further below in more detail). At this point, the full lifetime ECL is applied, resulting in a significant increase in the provisions.

Stage 3 occurs when the credit quality of a financial asset deteriorates to the point that credit losses are incurred, or the asset is credit-impaired/defaulted. Lifetime ECL continuous to be applied for loans in this stage of credit deterioration and interest income is calculated by applying the effective interest rate to the amortised cost (i.e. gross carrying amount adjusted for the loss allowance.) Regulatory default definition as of CRR (Capital Requirement Regulation) Article 178 of Regulation (EU) No. 575/2013 is followed:

- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing collateral (if any is held), or
- The borrower is more than 90 days past due on any material credit obligation to the Bank.

Determination that financial asset is credit-impaired/defaulted is achieved through tracking of default criteria defined in "Default detection and recovery policy".

For the ECL calculation the Bank classifies transactions in the different stages based on qualitative and quantitative criteria. Those are determined both by the standard itself as well as by internal analyses which are undertaken for different portfolio types. The staging indicators are classified as follows.

Qualitative staging criteria:

- 30 days past due: the Bank identifies a staging criterion trigger when contractual payments are more than 30 days past due.
- Forborne exposures: are those exposures where the Bank has extended forbearance measures because of the debtor facing financial difficulties. Forbearance events may result in an exposure being classified as performing or non-performing which implies a stage transfer into Stage 2 or 3.

Further qualitative criteria around watchlist/early warning systems are reflected in the PD/rating of the client, via the automatic downgrade (as incorporated within the rating models and processes) or as a specific stage trigger depending on the portfolio type (all prescribed by internal acts).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial instruments (continued)

Quantitative criteria are applied based on the probability of default, namely significant adverse changes in the 12-months probability of default at the reporting date compared to the initial recognition of the exposure with significance being assessed by different thresholds of PD changes for different portfolios. These thresholds are regularly evaluated from a qualitative and/or quantitative point of view to ensure reasonable stage criteria (cf. chapter "Validation"). In addition, for some parts of the portfolios leverage is applied as an additional stage criterion to reflect changes in exposure caused by macro-economic circumstances which were not foreseeable at initial recognition and/or are not directly reflected in the PD at the reporting date. Due to limited timeseries there are cases where the rating at origination is not available. For such cases, a simplified proxy approach based on historically simulated ratings is used (PD at certain point in time is used as a proxy for the initial recognition) while additional mechanisms are applied to account for potential adverse effects resulting from this assumption.

Both, the qualitative and quantitative factors used for the staging determination are undergoing a constant validation and monitoring process to ensure their appropriateness and applicability over time (cf. chapter "Validation").

Forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. The Bank has identified and documented key drivers of credit risk for each portfolio of financial instruments incorporating historical data analysis and estimated relationships between macro-economic variables and credit risk. These key drivers used for the analyses include in addition to other important factors like following major indicators: unemployment rates, GDP growth rates, real estate prices, industrial production, etc. All variables incorporated are reflecting local country and local portfolio specifics.

Forecast of these economic variables are regularly evaluated and updated. The input data for the forecasts is collected from both internal and external data sources. An extensive internal check and (if needed) adjustment is performed to make sure that forecasts reflect the Bank's view on future outcomes. This includes also different future scenarios and their probabilities. These scenarios are the baseline economic scenario, the optimistic and pessimistic scenario forecast and probability weights for each of them. The forecasted parameters are consistently used for various bank internal processes.

The forward-looking statements contained in this report are based on current best estimates, assumptions and projections of the Bank and currently available public information. They are not guaranteeing future performance and involve certain known and yet unknown risks and uncertainties and are based upon currently best assumptions as to future events that may not prove to be accurate. Many factors could cause the current results or performance to be materially different from those that may be expressed or implied by such statements. The Bank does not assume any obligation to update the forward-looking statements contained in this report.

The following table provides the baseline case, upside (optimistic) case and downside (pessimistic) case scenario forecasts for selected forward-looking information variables used to estimate YE 2019 ECL. The amounts shown represent the average value of the macroeconomic variables over the first 12 months and the remaining 2-year forecast period for the baseline case, as well as average values of the entire projection horizon (3-year) for the optimistic and pessimistic cases.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial instruments (continued)

	Baseline case		Optimistic case	Pessimistic case
	Next 12 months[1]	Remaining 2-year period[1]	3-year Period[1]	3-year Period[1]
Real GDP (constant prices YoY, %)	3.0	2.7	4.0	1.0
Unemployment Rate (ILO, average %)	8.0	7.3	6.4	9.2
Real Estate (% of change)	4.6	2.9	4.5	2.2
CPI Inflation (average % YoY)	0.5	1.7	1.7	0.8

[1] The numbers represent average values for the quoted periods.

Validation

The methodology and the assumptions undertaken in the ECL calculation are embedded in the internal validation process. This means that models/methodologies are constantly undertaken a quality review and an improvement process. The validation standards applied are formalized upfront in a way to ensure a consistent evaluation over time. The validation is generally performed on an annual base.

The Bank distinguishes between an initial and an ongoing validation:

- An initial validation is performed in case of a new model development, major changes in the existing methodology and/or significant shifts in the values.
- Ongoing validations represent the regular review of the existing methodology (when no initial validation was performed).

In addition to the yearly process a close monthly monitoring is undertaken to ensure that portfolio and model developments are timely identified while already raised findings are timely tackled.

The validation is performed by the local independent unit which delivers reports to local MB and Group responsible departments.

Write-offs

When the Bank has no reasonable expectations of recovery, a write-off event occurs. A write-off constitutes a derecognition event (either in full or in part) typically triggered by concessions given to borrowers in significant financial difficulties and/or by the Bank's judgment that it is no longer reasonable to expect any recovery of that amount.

Write-off can be done only against already recognised ECL. The amount written off can be either a full write-off or a partial write-off.

Write-off can be triggered by different criteria which can include unsecured and secured financial asset and needs to consider all proceedings that Bank can take (legal or internal). Therefore, in cases where financial asset for which the Bank's right to claim repayment from the debtor in judicial or other proceedings has been terminated by approval of compulsory settlement or any other triggers defined for financial assets that are treated as non-recoverable will lead to executing write-off procedures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial instruments (continued)

Derecognition and contract modification

A financial asset is derecognised when:

- The contractual rights to receive cash flows from the asset have expired; or
- The Bank transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement;
- Bank has either: (i) transferred substantially all risks and rewards connected with ownership of the asset, or (ii) has neither transferred nor retained substantially all risks and rewards connected with ownership of the asset but has transferred control of the asset.

Contractual adjustments resulting from negotiations with borrowers can lead to two types of modifications of initial contractual cash flows.

Significant modifications leading to derecognition of financial assets

If the contractual cash flows of a financial asset are modified or renegotiated substantially, it results in derecognition (due to expiry of contractual rights to the cash flows) of that financial asset. A new financial asset with modified terms is recognised and the difference between the amortised cost of derecognised financial asset and the fair value of the new financial asset is reported in the profit or loss statement.

If the borrower is not in default or the significant modification does not lead to default, then the new asset will be classified in Stage 1. If the borrower is in default or the modification leads to derecognition of original financial asset and to origination of new financial asset at a deep discount that reflects the incurred credit losses, then the new asset will be treated as purchased or originated credit-impaired (“POCI”) at initial recognition. For POCI financial assets no loss allowances are recognised and lifetime ECLs are reflected in the credit adjusted effective interest rate at initial recognition. Subsequently, the amount of change in lifetime ECLs since the initial recognition of POCI financial asset should be recognised as an impairment gain or loss in profit or loss. Even if the lifetime ECLs are less than the amount of ECLs that were included in the estimated cash flows on initial recognition, favourable changes in lifetime ECLs have to be recognised as an impairment gain.

The following main criteria result in significant modifications:

- Quantitative - significant change of the contractual cash flows when the present value of the cash flows under the new terms is discounted using the original effective interest rate and differs from the discounted present value of the original financial instrument for at least 10%.
- Qualitative:
    - change of debtor,
    - currency change,
    - change of the purpose of financing,
    - SPPI critical features are removed or introduced in the loan contract.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial instruments (continued)

Insignificant modifications not leading to derecognition of financial assets

If the contractual cash flows of financial asset are modified or renegotiated in such a way that does not result in derecognition of that financial asset, the Bank will recalculate the gross carrying amount of the financial asset on the basis of the renegotiated or modified contractual cash flows using initial effective interest rate for discounting. A modification gain or loss would be recognised in profit or loss.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

j) Derivative financial instruments

In the normal course of business, the Bank uses derivative financial instruments to manage its risks. The use of financial derivatives is governed by the Banks's policies approved by the Management Board, which provide written principles on the use of financial derivatives.

Derivative financial instruments are initially recognized in the statement of financial position and subsequently re-measured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate. Fair value changes of derivative financial instruments are recognized in the statement of profit or loss.

All derivatives are carried as assets when their fair value is positive and as liabilities when negative.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Property and equipment

Property and equipment, except land and buildings are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes the purchase price and the directly associated cost of bringing the asset to a working condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Depreciation commences when the assets are ready for their intended use. Depreciation is calculated on all assets, except land and assets in construction, on a straight-line basis over the estimated useful life of the applicable assets.

The annual rates of depreciation and useful lives are used as follows:

	in percent	in years
Buildings	2% - 5%	25 – 50 years
Equipment and computers	10% -20%	5 – 10 years
Equipment bought after leasing contract maturity	20% - 100%	1 – 5 years
Other	10% - 20%	5 – 10 years

Land and buildings are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity, such that the carrying amounts do not differ materially from those that would be determined using fair values at the financial reporting date.

Any revaluation increase arising on the revaluation of such land and buildings is recognized in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the property's revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit or loss. The amount of the surplus transferred directly to retained earnings is the difference between depreciation based on the revalued carrying amount of the building and depreciation based on the building's original cost.

On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss in the year of disposal.

When the use of property changes from owner-occupied to rented, the property is reclassified to investment property.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Investment property

Investment property is property held by the Bank to earn rentals or for capital appreciation or for both, but not for sale in the ordinary course of business or for administrative purposes.

Investment property is measured initially at its cost, including transaction costs. Subsequently, investment property is stated at cost less accumulated depreciation and any impairment loss. Investment property is depreciated on a straight-line basis over a period of 20 to 50 years (2018: 20 to 50 years). Investment property is derecognized when it has been disposed. Any gains or losses on the disposal of investment property are recognized in the statement of profit or loss in the year of disposal.

When revalued properties are transferred from property and equipment to investment property measured at cost, revaluation reserve accumulated while the property was accounted for as property and equipment is transferred to retained earnings when the property is realized either through higher depreciation charges while the asset is being used or on disposal.

m) Intangible assets

Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably. Intangible assets are stated at cost less accumulated amortization and impairment losses, if any. Intangible assets are amortized on a straight line basis over the best estimate of their useful lives. The amortization period and the amortization method are reviewed at each reporting period.

Intangible assets are amortized over a period of 3 to 10 years (2018: 4 to 10 years).

n) Impairment of non-financial assets

Property and equipment, investment property and intangible assets are reviewed for impairment whenever events or changes in the circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in statement of profit or loss for assets carried at cost and treated as a revaluation decrease for assets that are carried at their revalued amount, to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for the same asset.

o) Sale and repurchase agreements

If a financial asset is sold under an agreement to repurchase it at a fixed price or at the sale price plus a lender's return, or, if it is loaned under an agreement to return it to the transferor, it is not derecognized because the Bank retains substantially all the risks and rewards of ownership.

Securities sold under sale and repurchase agreements ("repos") are presented in the balance sheet positions according to the original classification of the asset, or the bank reclassifies the asset on its statement of financial position. The counterparty liability is included in "Borrowings".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Sale and repurchase agreements (continued)

Securities purchased under agreements to purchase and resell (“reverse repos”) are not recognized in the balance sheet. The purchase consideration is recorded as an increase of “Loans and receivables from banks” or “Loans and receivables from customers”, as appropriate, with the corresponding decrease in cash. The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the repo agreement using the effective interest rate.

p) Current accounts and deposits from banks and customers

Current accounts and deposits from banks and customers are initially measured at fair value plus transaction costs, and subsequently stated at their amortised cost using the effective interest method.

q) Borrowings and subordinated debt

Borrowings and subordinated debt are initially recognised at their fair value, less attributable transaction costs. Subsequent to initial recognition they are stated at amortised cost with any difference between proceeds (net of transaction costs) and redemption value being recognised in the income statement over the period on an effective interest basis.

r) Provisions for liabilities and charges

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Provisions for liabilities and charges are maintained at the level that the Bank's management considers sufficient for absorption of incurred losses. The management determines the sufficiency of provisions on the basis of insight into specific items, current economic circumstances, risk characteristics of certain transaction categories, as well as other relevant factors.

Provisions are released only for expenditures in respect of which provisions are recognized at inception and are reversed if outflow of economic benefits to settle the obligation is no longer probable.

Provisions for litigations against the Bank are recognized according to the CNB’s decision on the obligation to make provisions for litigations conducted against a credit institution.

s) Commitments and contingent liabilities

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

The provision for possible commitments and contingent liabilities losses is maintained at a level the Bank management believes is adequate to absorb probable future losses. The Bank Management Board determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax expense is based on taxable income for the year. Taxable income differs from net income as reported in the statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each financial reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realized. Deferred tax is charged or credited in the statement of profit or loss and statement of the comprehensive income respectively.

The Bank's tax returns are subject to examination by the tax authorities. Because the application of tax laws and regulations to many types of transactions is susceptible to varying interpretations, the amount reported in the annual financial statements could be changed at a later date upon final determination by the tax authorities.

u) Cash and cash equivalents for the purpose of Cash Flow Statement

For the purpose of reporting cash flows, cash and cash equivalents are defined as cash and cash equivalents with original maturity of three months or less, which comprise cash and current accounts, placements with other banks and balances with Croatian National Bank.

Cash and cash equivalents exclude the obligatory minimum reserve with the Croatian National Bank as these funds are not available for the Bank's day to day operations.

3. ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank 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 the existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Bank's credit risk portfolio and, as part of this, the estimation of the fair value of real estate collateral represents the major source of estimation uncertainty. This and other key sources of estimation uncertainty, that have a significant risk of causing a possible material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

a) Impairment losses on loans and receivables and debt instruments carried at fair value through other comprehensive income (FVTOCI)

The Bank monitors the creditworthiness of its customers on an ongoing basis. Impairment losses are made mainly against the carrying value of loans to and receivables from customers and as provisions for liabilities and charges arising from off-balance-sheet risk exposure to customers, mainly in the form of undrawn lending commitments, guarantees, letters of credit and unused credit card limits.

In addition to losses on an individual basis, the Bank continuously monitors and recognizes impairments which are known to exist at the reporting date, but which have not yet been specifically identified. In estimating unidentified impairment losses existing in collectively assessed portfolios, the Bank seeks to collect reliable data on appropriate loss rates based on historical experience related to, and adjusted for current conditions, and the emergence period for the identification of these impairment losses. The Bank also takes into consideration the minimum impairment loss rates of 0.8% prescribed by the CNB.

Financial assets carried at amortized cost

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

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

The Bank takes into consideration the combined effect of several events when assessing impairment and uses its experienced judgment in cases where the observable data required to estimate impairments is limited. In estimating impairment losses on items individually or collectively assessed as impaired, the Bank also takes into consideration the ranges of specific impairment loss rates prescribed by the CNB.

3. ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

a) Impairment losses on loans and receivables and debt instruments carried at fair value through other comprehensive income (FVTOCI) (continued)

All provisions are calculated fully in line with the new international accounting standard for financial instruments (IFRS 9). The model used to determine impairment losses changed from a historically oriented model under IAS 39 (incurred losses) to a future oriented model under IFRS 9 (expected losses). Different approaches are applied, depending on the stage a transaction is allocated to. Stage 1 requires the recognition of twelvemonth expected credit losses. If there is a significant increase in credit risk, the loss allowance must be increased up to the amount of the expected lifetime loss (Stage 2). In case of an objective indication of an impairment (NPE, Stage 3) the lifetime expected credit loss is recognised.

IFRS 9 requires a bank to determine an expected credit loss (ECL) amount on a probability weighted basis as the difference between the cash flows that are due to the bank in accordance with the contractual terms of a financial instrument and the cash flows that the bank expects to receive. In determining the cash flows the Bank is using a sum of marginal losses approach whereby ECLs are calculated as the sum of the marginal losses occurring in each time period from the reporting date. The marginal losses are derived from individual parameters that estimate exposures and losses in the case of default and the conditional probability of default for each period (the probability of a default in time period X conditional upon an exposure having survived to time period X). In general, fully statistical models are applied to determine the parameters used wherever possible and plausible. These models rely on internal historical and / or external market available data. Methodologies are based on internal already available credit risk models while being adapted to be fully IFRS 9 compliant.

The (lifetime) ECL is calculated for different scenarios separately, considering current and future forward looking information. The aggregation to the final ECL is performed at the end by probability weighting of the different individual macro scenarios. The Bank calculates in total three outcomes: base case, optimistic case and pessimistic case, while occasionally also some more adverse scenarios are simulated to understand dynamics and potential portfolio risks.

As for the non-performing part (Stage 3) two approaches are of relevance, namely collective assessment based on risk parameters for small exposures and individual assessment with expert based cashflow estimation for larger exposures.

Collective assessment is done based on estimation/projection of main recovery parameters for groups of portfolios (exposures showing similar characteristics related to credit risk profile and recovery potential).

Individual assessment, or calculation of specific risk provisions based on individual assessment of impairment losses considers that the underlying credit exposure is subject to an individual analysis in accordance with regulations regarding the calculation of provisions for impairment losses. In this calculation, repayments from a company's operating business (primary cash flows) and from the utilisation of collaterals and non-core assets (secondary cash flows) are taken into consideration. Depending on the assumed default scenario (restructuring or utilisation), expected repayments are assessed individually in terms of amount and time, the underlying assumptions are documented and justified on a case-by-case basis and expected cash flows are discounted to the net present value and offset against the outstanding current exposure. In terms of the calculation of recovery cash flows from real estate, the Bank bases its assumptions on the collateral's market value.

3. ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

a) Impairment losses on loans and receivables and debt instruments carried at fair value through other comprehensive income (FVTOCI) (continued)

Haircuts are measured individually on a case-by-case basis, depending on the determined usability and based on a variety of factors such as market liquidity, location, utilisation period and legal situation in relation to the real estate.

For the part of the non-performing portfolio where the exposure at default (EAD) on group of borrower's levels is below a EUR 130 thousand, the calculation of provisions for impairment losses is performed as a collective assessment (rule-based approach). The provision amount is calculated as product of EAD and loss given default (LGD), where LGD is based on relevant characteristics such as time in default, risk segment and product.

Additionally, the Bank also apply for all calculations and all stages the minimum impairment loss rates defined by CNB.

Constant strong collection and rehabilitation efforts contributed to further NPE decrease during 2019. Most significant part is coming from secured debt sale transaction in retail segment. Additionally, constant focus on both, early collection and existing NPL collection / recovery, are strongly influencing positive NPE portfolio development through 2019. These activities also resulted with restructuring of larger retailer exposure in HY 2019 with positive impact on NPE portfolio and provisioning stock.

Risk costs for 2019 ended up in amount of HRK 28.4 million (local GAAP), and with inclusion of off-balance sheet items, total YTD risk costs amounts HRK 25.4 million, which was significantly below budgeted figures for 2019. Favourable movements of performing portfolio resulted in positive movements of risk costs for this portfolio, while low NPL inflow, significant repayments (including mentioned secured debt sale transaction), and recovery also led to positive movements of risk costs within defaulted portfolio.

b) Classification of lease contracts

The application of IFRS 16 requires the Bank to make judgments that affect the valuation of lease liabilities and the valuation of right of use assets. The lease term determined by the Bank comprises non-cancellable period of lease contracts, periods covered by an option to extend the lease if the Bank is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Bank is reasonably certain not to exercise that option. The Bank reassesses lease terms whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

For lease contracts with indefinite term the Bank estimates the length of the contract using the planning models.

The present value of the lease payments is determined using the incremental borrowing rate (discount rate) representing the risk free rate, adjusted by country default swap rates to be applicable for the country and currency of the lease contract and for similar tenor, adjusted by add-on based on mid-to-long credit facilities. The Addiko secured interest rate curve reflects a loan-to-value ratio of 60%. In general, the determination of the discount rates is based on an arm's length pricing principal.

3. ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

c) Fair value of financial instruments

Fair values of financial instruments that are traded in active markets are based on quoted market prices. For all other financial instruments, the Bank determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exists, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads, bond and equity prices, foreign currency exchange rates, equity index prices as well as volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length. When measuring fair values, the Bank takes into account the IFRS 13 fair value hierarchy that reflects the significance of the inputs used in making the measurements. Each instrument is evaluated in detail on a separate basis. The levels are determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The financial instruments carried at fair value have been categorized under the three levels of the IFRS 13 fair value hierarchy as follows:

- Level 1 – Instruments where the fair value can be determined directly from prices quoted in active, liquid markets.
- Level 2 – Instruments valued with valuation techniques using observable market data. These are instruments where the fair value can be determined by reference to similar instruments trading in active markets, or where a technique is used to derive the valuation but where all inputs to that technique are observable.
- Level 3 – Instruments valued with valuation techniques using market data which are not directly observable on an active market. These are instruments where the fair value cannot be determined directly by reference to market-observable information, and some other pricing techniques must be employed. Instruments classified in this category have an element which is unobservable and which has a significant impact on the fair value.

Additional information about fair value hierarchy disclosure for different types of financial instruments in Bank's portfolio is provided below.

Fixed Income Securities
Fixed Income Securities are priced in a two tier process depending on the liquidity in the respective market. Liquid instruments in active markets are marked to market and consequently positions in these instruments are disclosed under Level 1, whereas securities with inclusion of valuation techniques without any internal management judgement are disclosed under Level 2.

OTC Derivatives
Market value of OTC derivatives is calculated through widely recognized valuation models, which are using inputs that are usually available in the market for simple over the counter derivatives like FX outrights and interest rate swaps.

Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. OTC derivatives are disclosed as Level 2.

3. ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

c) Fair value of financial instruments (continued)

Equity Instruments

Equity Instruments are assigned to Level 1 when a quoted price is available on a market, Level 2 in case of combination of market-available data into valuation techniques and to Level 3 when no quotations are available or quotations have been suspended indefinitely.

Investment Funds

The Bank holds investments in certain investment funds that calculate net asset value ("NAV") per share, and since NAV prices used for daily revaluation are observable they are disclosed as Level 1.

d) Taxation

The Bank provides for tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns are subject to the approval of the tax authorities who are entitled to carry out subsequent inspections of taxpayers' records.

Deferred income tax is recognized on temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, as well as the tax losses carried forward. In evaluating Bank's ability to recover deferred tax assets, all available positive and negative evidence is considered, including projected future taxable income.

The assumptions about future taxable income require significant management judgments and are consistent with the plans and estimates used to manage the underlying businesses.

e) Regulatory requirements

The CNB and the Croatian Financial Services Agency are entitled to carry out regulatory inspections of the Bank's operations and to request changes to the carrying values of assets and liabilities, in accordance with the underlying regulations.

f) Litigation and claims

The Bank makes an individual assessment of all court cases. The assessment is made by the Legal Department of the Bank. The assessed amounts represent the Bank's best estimate of loss in respect of legal cases, although the actual outcome of court cases initiated against the Bank can be significantly different. It is not practicable for management to estimate the financial impact of changes on the assumptions based on which management assesses the need for provisions.

g) Provisions for liabilities and charges

The Bank makes an individual assessment of present legal or constructive obligation that can result from past events and recognizes the provision when 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.

3. ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

g) Provisions for liabilities and charges (continued)

In relation to legal risks, the calculation of potential losses takes into account possible scenarios of how the litigation would be resolved and their probability, taking into account the history of former verdicts and assessments by independent law firms. In certain cases, due to a short horizon of available historical data and significant uncertainty as to the direction of court decisions as well as the market conditions, the adopted methodology and assumptions may be subjects of updates in subsequent reporting periods.

The Bank makes an individual assessment of potential obligations arising from onerous contracts and assessment of restructuring expenses. The assessed amounts represent the Bank's best estimate of loss.

h) Provisions for employee benefits

According to the Addiko Group's Remuneration Policy and local Bank's Remuneration Policy, the provisions for employee benefits are defined/confirmed on the Addiko Group level based on Bank's impact to Addiko Group's result. The distribution of the provisions is regulated by local Bank's Remuneration Policy.

i) Fair value of land and buildings

The Bank uses the revaluation model for its land and buildings. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the reporting date.

4. INTEREST INCOME

a) By source

in HRK million

	2019	2018
Individuals	351.3	373.0
Private companies and sole traders	134.0	162.7
State and public sector	56.5	71.4
Banks and other financial institutions	15.3	20.2
Other	12.7	0.1
Total	**569.8**	**627.4**

b) By class of financial instrument

in HRK million

	2019	2018
Loans and receivables	496.0	550.7
Debt securities	62.5	63.6
Placements with and loans to other banks	7.4	6.2
Derivative financial instruments	1.3	5.3
Reverse repo agreements	2.0	1.2
Other	0.6	0.4
Total	**569.8**	**627.4**

5. INTEREST EXPENSE

a) By recipient

in HRK million

	2019	2018
Individuals	24.7	71.3
Banks and other financial institutions	59.2	87.3
Private companies and sole traders	4.3	5.6
State and public sector	0.4	0.6
Other	0.1	0.1
Total	**88.7**	**164.9**

b) By class of financial instrument

in HRK million

	2019	2018
Subordinated debt	44.3	65.1
Current accounts and deposits from customers	28.3	79.5
Derivative financial instruments	6.3	6.1
Borrowings	6.2	7.9
Lease liabilities	1.5	-
Current accounts and deposits from banks	0.9	2.1
Other liabilities	1.2	4.2
Total	**88.7**	**164.9**

6. FEE AND COMMISSION INCOME

in HRK million

	2019	2018
Payment transactions	84.1	77.0
Credit cards	53.7	47.4
Customer services	43.7	50.0
Custody	16.7	15.3
Guarantees and letters of credit	7.9	8.2
Loans to customers	4.2	4.2
Other	19.4	12.7
Total	**229.7**	**214.8**

7. FEE AND COMMISSION EXPENSE

in HRK million

	2019	2018
Credit cards	14.9	13.8
Payment transactions	13.0	13.9
Banks' charges	2.4	5.8
Other	9.0	7.2
Total	**39.3**	**40.7**

8. NET TRADING INCOME

in HRK million

	2019	2018
Net gain from trading in foreign currencies	36.8	45.8
Net unrealized gains from financial assets held for trading, excluding derivatives	2.0	0.4
Net realized gains from financial assets held for trading, excluding derivatives	0.2	-
Net loss from trading in derivatives	(5.9)	(12.4)
Total	**33.1**	**33.8**

The net trading gain in 2019 amounted to HRK 33.1 million. The main driver of the positive result was prudent management of Bank's open FX position and improvement of client related business. The above stated result has to be monitored in combination with net investment income contained in Note 9, in amount of HRK 75.4 million and the gain in position Net FX differences, contained in Note 10, in amount of HRK 5.6 million (2018: gain in the amount of HRK 3.6 million), producing the total trading result of HRK 114.1 million (2018: HRK 47.9 million).

9. NET INVESTMENT INCOME

in HRK million

	2019	2018
Gains on derecognition of financial assets at fair value through other comprehensive income	41.8	10.4
Net realized gains on financial assets mandatory through profit or loss	33.0	0.1
Net unrealized gains on financial assets mandatory through profit or loss	0.6	-
Total	**75.4**	**10.5**

Net investment income shows increase from HRK 10.5 million in year 2018 to HRK 75.4 million in year 2019 as a result of restructuring of bonds portfolio measured at fair value through other comprehensive income and sale of non-core positions.

10. NET FOREIGN EXCHANGE DIFFERENCES

in HRK million

	2019	2018
Net gains/(losses) from translation of monetary assets and liabilities:		
"Foreign currency clause" assets and liabilities	20.5	(48.9)
Foreign currency assets and liabilities	(14.9)	52.5
Total	**5.6**	**3.6**

Common Croatian banking practice involves linking HRK loans to a foreign currency, usually EUR. Any gain or loss as a result of the above noted pegging is included in the "Net gains/(losses) from translation of monetary assets and liabilities with foreign currency clause".

Bank does not have fully matched currency structure of its assets and liabilities. The result is dependent on the movement of underlying FX rates throughout the year. As a result, Bank has recorded net gain from revaluation of its assets and liabilities in 2019 in amount of HRK 5.6 million. In year 2018, in named position, gain in the amount of HRK 3.6 million has been recorded.

11. OTHER OPERATING INCOME

in HRK million

	2019	2018
Income from services to Addiko Group members	17.5	11.4
Income from cards business	6.2	6.2
Rental income	1.8	1.7
Income from sales of property and assets held for sale	1.2	2.8
Income from dividends	0.1	0.1
Other income	3.0	8.1
Total	**29.8**	**30.3**

"Income from services to Addiko Group members" mainly relates to intra group services based on Target Operating Model for the functions located in Croatia and providing services to other Addiko Group members.

12. PERSONNEL EXPENSES

in HRK million

	2019	2018
Net salaries	115.0	118.8
Pension insurance expenses	32.4	33.5
Contributions on salaries	26.8	29.4
Tax and surtax expenses	21.5	23.2
Other personnel expenses	2.9	5.3
Charging of provisions for employee benefits	25.2	22.7
Total	**223.8**	**232.9**

As at 31 December 2019 and 2018, the Bank had 1,059 and 1,107 employees, respectively.

13. OTHER OPERATING EXPENSES

in HRK million

	2019	2018
Material expenses and services	125.9	120.0
Saving deposits insurance premium	21.8	24.1
Marketing expenses	20.0	22.2
Other taxes and contributions	9.6	12.0
Rental and lease charges	6.5	27.9
Write-offs of non-financial assets	-	7.9
Other expenses	22.2	22.1
Total	**206.0**	**236.2**

Decrease in Other operating expenses from HRK 236.6 million in 2018 to HRK 205.9 million in 2019 is mainly arising from application of IFRS 16 starting from 1 January 2019 according to which lease contracts that convey right to use an asset are initially measured at cost and subsequently depreciated and write-off of other IT assets in 2018 amounting HRK 7.9 million.

14. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

in HRK million

	2019	2018
Loans and receivables from customers	(39.8)	(30.6)
Accounts with banks and balances with Croatian National Bank	(1.9)	4.0
Investment securities	5.8	(4.4)
Loans and receivables from banks	-	5.5
Recoveries/Write offs	7.5	(4.1)
Total	**(28.4)**	**(29.6)**

As at 31 December 2019, for performing part of portfolio, the Bank recognized an ECL release for Stage 1 and Stage 2 in accordance with the CNB requirements of HRK 5.5 million (applied CNB minimum of 0.8% for items qualifying for these two stages). On the other hand, for Stage 3 the Bank recognized HRK 31 million of additional risk costs booked during 2019.

Largest amount of allocations observed in Stage 3 is coming from one corporate medium client. The positive development of the risk provisions (releases) is mainly effected by successful debt sale of retail secured portfolio and “forward flow” sale transactions for retail unsecured portfolio, together with constant restructuring measures, refinancing by other banks, as well as to settlement agreements within the Retail Segment.

15. OTHER IMPAIRMENT LOSSES AND PROVISIONS

in HRK million

	2019	2018
Impairment of intangible assets	(22.5)	(4.6)
Impairment of land and buildings	(3.8)	(2.7)
Impairment of investment property	(0.7)	-
Impairment of equipment	(4.7)	(0.9)
Impairment of assets acquired in lieu of uncollected receivables	-	(0.3)
Impairment of non-current assets and disposal groups classified as held for sale	(1.6)	(0.2)
Provisions for court cases	(116.2)	(12.3)
Provisions for restructuring expenses	(0.8)	(1.9)
Provisions for contractual obligations	(0.5)	(0.6)
Release of provisions for off-balance sheet exposures	3.0	4.2
Release of provisions for other liabilities	-	6.0
Release of provisions for expenses during sale of subsidiaries	-	12.1
Total	**(147.8)**	**(1.2)**

Net increase of HRK 146.6 million is mainly driven by increase in provision expenses due to the recent development in relation to legal matters on CHF currency clauses in Croatia and further IT optimisations resulting with impairments of IT related assets.

16. INCOME TAX

in HRK million

	2019	2018
Deferred income tax	(2.9)	(17.3)
Income tax expense	**(2.9)**	**(17.3)**

The reconciliation between tax expense and accounting profit is as follows:

in HRK million

	2019	2018
Net profit before tax	**159.6**	**188.2**
Tax at the statutory rate	(28.7)	(34.0)
Tax effect of non-taxable income	0.4	1.7
Tax effect of non-deductible costs	(3.3)	(11.1)
Utilization of loss carried forward	56.4	32.3
Deferred tax on losses from prior years carried forward	(27.7)	(6.2)
Income tax reported in the statement of profit or loss	**(2.9)**	**(17.3)**
Effective tax rate	0%	0%

Current tax assets of the Bank in the amount of HRK 0.7 million as at 31 December 2018 refer to the income tax advances paid to the Ministry of Finance, net of income tax liability.

As at 31 December 2019 the Bank has tax losses carried forward amounting to HRK 2,121.7 million (2018: HRK 2,580.7 million). Such tax losses may be used to reduce taxable profits of the following five years after the years in which the loss was incurred.

16. INCOME TAX (CONTINUED)

Deferred tax asset related to unused tax losses of the Bank in the amount of HRK 1,863.0 million as at 31 December 2019 (2018: 2,167.8 million) was not recognized as it was not probable that this amount of tax losses carried forward will be utilized until the right for utilization expires.

The availability of tax losses available for offset against taxable income in future periods, not recognized as deferred tax assets were as follows:

in HRK million

	2019	2018
No more than 1 year	1,863.0	-
No more than 2 years	-	2,167.8
Total net tax losses carried forward not recognized as deferred tax asset	**1,863.0**	**2,167.8**

Movements in the Bank's deferred tax assets are as follows:

in HRK million

	Net deferred tax assets 2019	Recognized in total comprehensive income 2019	Net deferred tax assets 2018	Recognized in total comprehensive income 2018
Source:				
Unrealized losses on derivative financial instruments	1.8	1.4	0.4	0.2
Impairment of property and equipment	21.5	4.8	16.7	0.4
Deferred loan origination fees	6.1	0.3	5.8	(0.6)
Investments in subsidiary impairment	-	-	-	(6.8)
Other provisions	3.7	0.3	3.4	(2.3)
Pending court actions provisions	22.5	17.8	4.7	(2.2)
Employees provisions	4.5	0.2	4.3	0.2
Tax loss carried forward	46.6	(27.7)	74.3	(6.2)
Deferred tax in profit and loss account	**106.7**	**(2.9)**	**109.6**	**(17.3)**
Fair value of debt instruments at fair value through other comprehensive income	(20.1)	(15.0)	(5.1)	6.2
Land and buildings revaluation	(2.2)	0.7	(2.9)	0.4
Deferred tax relating to components of other comprehensive income	**(22.3)**	**(14.3)**	**(8.0)**	**6.6**
Total deferred tax	**84.4**	**(17.2)**	**101.6**	**(10.7)**

Deferred tax assets are recognized up to the amount of their probable utilization as taxable profits are expected in future periods based on Bank's official approved budgets.

17. CASH AND CASH BALANCES

in HRK million

	2019	2018
Cash in hand	328.0	349.1
Cash on accounts with CNB	1,315.4	1,502.8
Nostro accounts and balances with other banks	187.2	199.1
Total cash and accounts with banks	**1,830.6**	**2,051.0**
Obligatory reserve	1,052.1	1,074.8
Total balances with Croatian National Bank	**1,052.1**	**1,074.8**
Impairment losses	(3.6)	(1.2)
Total	**2,879.1**	**3,124.6**

The Bank calculates obligatory reserve, HRK and foreign currency part, in the amount of 12% (2018: 12%) of deposits, borrowings, subordinated debt and other financial obligations.

The part of 75% (2018: 75%) of calculated foreign currency obligatory reserve is included in HRK obligatory reserve.

At least 70% (2018: 70%) of HRK obligatory reserves and 0% (2018: 0%) of foreign currency obligatory reserves have to be held with the CNB. The remaining amount can be held in the form of other liquid receivables.

According to the CNB's decision obligatory reserve is deposited only in HRK. Banks have to deposit 2% of their obligatory reserve in foreign currency on their Payment Module account in CNB (Target2-HR).

According to the CNB decision obligatory reserve is not bearing interest.

Movement in gross carrying amount of Cash and cash balances:

in HRK million

	2019 Stage 1	2018 Stage 1
At 1 January	**2,776.7**	**4,484.7**
Increases due to origination and acquisition	712.2	17.3
Changes in the gross carrying amount	(870.5)	(1,723.1)
Decreases due to derecognition	(63.7)	(2.2)
At 31 December	**2,554.7**	**2,776.7**

Movement in impairment losses of Cash and cash balances:

in HRK million

	2019 Stage 1	2018 Stage 1
At 1 January	**(1.2)**	**(5.2)**
Increases due to origination and acquisition	(1.1)	-
Changes due to change in credit risk (net allocation)	(6.7)	(14.0)
Changes due to change in credit risk (net release)	5.8	18.0
Decreases due to derecognition	0.1	-
Foreign exchange and other movements	(0.5)	-
At 31 December	**(3.6)**	**(1.2)**

18. TRADING ASSETS

in HRK million

	2019	2018
Bonds issued by Republic of Croatia	122.4	99.1
Total	**122.4**	**99.1**

The bonds issued by Republic of Croatia are financial instruments issued in HRK, EUR and USD (2018: HRK and EUR) with interest rates ranging from 0.25% to 6.00% (2018: 1.75% to 3.88%) and with maturities between 2022 and 2024 (2018: 2022 and 2023).

19. LOANS TO AND RECEIVABLES FROM BANKS

in HRK million

	2019	2018
Deposits	59.4	-
Other receivables	4.5	2.5
Impairment losses	(0.1)	-
Total	**63.8**	**2.5**

Movement in gross carrying amount of loans and receivables from banks:

in HRK million

	2019 Stage 1	2018 Stage 1
At 1 January	**2.5**	**489.2**
Increases due to origination and acquisition	973.3	4,717.2
Changes in the gross carrying amount (increases)	0.3	4.1
Changes in the gross carrying amount (decreases)	(0.4)	(4.0)
Decreases due to derecognition	(911.8)	(5,204.0)
At 31 December	**63.9**	**2.5**

Movement in impairment losses of loans and receivables from banks:

in HRK million

	2019 Stage 1	2018 Stage 1
At 1 January	**-**	**(5.5)**
Increases due to origination and acquisition	(1.2)	(7.8)
Changes due to change in credit risk (net release)	0.1	-
Decreases due to derecognition	1.1	13.3
Foreign exchange and other movements	(0.1)	-
At 31 December	**(0.1)**	**-**

20. LOANS TO AND RECEIVABLES FROM CUSTOMERS

a) By type of customer

in HRK million

	2019	2018
Individuals	6,050.7	6,218.8
Private companies and sole traders	4,710.1	4,802.7
Public sector	83.7	142.9
Other	34.2	55.4
Impairment losses	(706.0)	(1,144.2)
Total	**10,172.7**	**10,075.6**

As at 31 December 2019 loans as presented in the table above include outstanding repurchase agreements with various corporate clients in the total amount of HRK 57.0 million (2018: 72.1 million). These agreements were collateralized with bonds issued by Republic of Croatia in the total amount of HRK 52.3 million (2018: HRK 46.1 million), shares of domestic companies in the total amount of HRK 12.2 million (2018: HRK 27.2 million) and at 31 December 2018 treasury bills of Ministry of Finance in the amount of HRK 11.2 million and.

b) Loans to individuals by purpose

in HRK million

	2019	2018
Housing loans	2,809.3	3,385.6
Cash loans	2,617.3	2,115.1
Overdrafts	207.6	223.1
Loans based on credit cards	76.6	82.5
Mortgage loans	66.6	85.4
Car loans	26.0	47.6
Other loans	237.5	269.2
Other receivables	9.8	10.3
Total	**6,050.7**	**6,218.8**

20. LOANS TO AND RECEIVABLES FROM CUSTOMERS (CONTINUED)

c) By industrial sector

in HRK million

	2019	2018
Individuals	6,050.7	6,218.8
Wholesale and retail trade	1,252.6	1,486.6
Other manufacturing	636.1	510.8
Hotels and restaurants	449.4	416.4
Construction	410.5	441.0
Other personal service activities	330.1	337.2
Education	245.8	290.6
Manufacturing of fabricated metal products	237.4	236.9
Agriculture, hunting, forestry and fishing	233.3	240.6
Manufacturing of food products and beverages	220.9	170.4
Transport, storage and equipment	214.5	220.4
Electricity, gas and water supply	138.7	151.6
Financial intermediation	106.8	70.0
Real estate business	104.7	68.1
Public administration and defence	83.5	142.8
Manufacturing of chemicals	70.2	74.9
Health and social work	37.0	36.9
Manufacturing of other non-metallic mineral products	18.4	18.8
Manufacturing of other transport equipment	15.6	11.6
Manufacturing of wearing apparel, dressing and dying of fur	10.0	10.7
Other	12.5	64.7
Subtotal	*10,878.7*	*11,219.8*
Impairment losses	(706.0)	(1,144.2)
Total	**10,172.7**	**10,075.6**

20. LOANS TO AND RECEIVABLES FROM CUSTOMERS (CONTINUED)

Movement in gross carrying amount of loans and receivables:

in HRK million

	2019 Stage 1	2019 Stage 2	2019 Stage 3	2019 POCI	Total
At 1 January	**8,988.6**	**841.6**	**1,229.9**	**159.7**	**11,219.8**
Increases due to origination and acquisition	5,087.8	53.3	-	-	5,141.1
Changes in the gross carrying amount (increases)	1,076.5	11.4	157.4	2.4	1,247.7
Changes in the gross carrying amount (decreases)	(2,908.2)	(177.0)	(101.1)	9.5	(3,176.8)
Decreases due to derecognition	(2,697.0)	(169.3)	(202.4)	(0.3)	(3,069.0)
Transfer between stages	93.3	(191.4)	147.6	(49.5)	-
Decrease due to write-offs	(3.5)	(1.3)	(436.2)	(73.0)	(514.0)
Foreign exchange and other movements	24.3	0.7	4.4	0.5	29.9
At 31 December	**9,661.8**	**368.0**	**799.6**	**49.3**	**10,878.7**

in HRK million

	2018 Stage 1	2018 Stage 2	2018 Stage 3	2018 POCI	Total
At 1 January	**9,465.0**	**498.7**	**1,550.7**	**194.0**	**11,708.4**
Increases due to origination and acquisition	5,169.6	53.5	-	-	5,223.1
Changes in the gross carrying amount (increases)	1,105.9	-	205.9	4.0	1,315.8
Changes in the gross carrying amount (decreases)	(2,847.4)	(145.6)	(197.8)	(8.6)	(3,199.4)
Decreases due to derecognition	(3,204.5)	(122.5)	(224.9)	(19.7)	(3,571.6)
Transfer between stages	(635.9)	562.7	73.2	-	-
Decrease due to write-offs	(1.5)	(0.5)	(172.9)	(8.2)	(183.1)
Foreign exchange and other movements	(62.6)	(4.7)	(4.3)	(1.8)	(73.4)
At 31 December	**8,988.6**	**841.6**	**1,229.9**	**159.7**	**11,219.8**

20. LOANS TO AND RECEIVABLES FROM CUSTOMERS (CONTINUED)

Movement in impairment losses of loans and receivables:

in HRK million

	2019 Stage 1	2019 Stage 2	2019 Stage 3	2019 POCI	Total
At 1 January	**(41.3)**	**(62.3)**	**(929.1)**	**(111.5)**	**(1,144.2)**
Increases due to origination and acquisition	(26.5)	(6.3)	-	-	(32.8)
Changes due to change in credit risk (net allocation)	(39.2)	(110.6)	(237.0)	(19.1)	(405.9)
Changes due to change in credit risk (net release)	51.0	100.5	124.1	6.1	281.7
Decreases due to derecognition	8.0	7.9	101.5	(0.2)	117.2
Transfer between stages	(3.4)	16.2	(53.8)	41.0	-
Decrease due to write-offs	0.1	0.8	436.2	73.0	510.1
Foreign exchange and other movements	0.2	0.1	(30.6)	(1.8)	(32.1)
At 31 December	**(51.1)**	**(53.7)**	**(588.7)**	**(12.5)**	**(706.0)**

in HRK million

	2018 Stage 1	2018 Stage 2	2018 Stage 3	2018 POCI	Total
At 1 January	**(53.7)**	**(60.0)**	**(1,013.4)**	**(146.9)**	**(1,274.0)**
Increases due to origination and acquisition	(40.2)	(5.8)	-	-	(46.0)
Changes due to change in credit risk (net allocation)	(33.1)	(92.3)	(350.6)	(23.2)	(499.2)
Changes due to change in credit risk (net release)	71.9	78.9	199.1	42.3	392.2
Decreases due to derecognition	9.1	8.5	92.0	11.6	121.2
Transfer between stages	3.8	7.7	(11.5)	-	-
Decrease due to write-offs	0.5	0.2	172.7	8.2	181.6
Foreign exchange and other movements	0.4	0.5	(17.4)	(3.5)	(20.0)
At 31 December	**(41.3)**	**(62.3)**	**(929.1)**	**(111.5)**	**(1,144.2)**

21. INVESTMENT SECURITIES

in HRK million

	2019	2018
Financial assets at fair value through other comprehensive income		
Bonds issued by the government	1,991.1	2,050.1
Bonds issued by foreign governments	920.1	987.3
Bonds issued by foreign banks	911.0	1,185.1
Bonds issued by domestic companies	154.5	144.2
Bonds issued by foreign companies	99.0	99.4
Impairment losses	(1.6)	(7.4)
Total financial assets at fair value through other comprehensive income	*4,074.1*	*4,458.7*
Financial assets at fair value through other comprehensive income (option)		
Equity securities	38.6	27.3
Total financial assets at fair value through other comprehensive income (option)	*38.6*	*27.3*
Non-trading financial assets mandatorily at fair value through profit or loss		
Participations in investment funds	121.9	121.2
Total non-trading financial assets mandatorily at fair value through profit or loss	*121.9*	*121.2*
Total	**4,234.6**	**4,607.2**

Bank has slightly decreased its investments measured at fair value through other comprehensive income in 2019 compared to 2018. Named action did not have any negative influence on Bank's performance while at the same time Bank has maintained moderate and acceptable risk profile and preserved liquidity with the highest quality of the underlying assets.

The bonds issued by the Government of Republic of Croatia are financial instruments issued in HRK, USD and EUR (2018: HRK, USD and EUR) with interest rates from 1.13% to 6.63% (2018: 1.75% to 6.75%) and maturities from 2020 to 2029 (2018: 2019 to 2025).

The bonds issued by foreign governments are financial instruments issued in EUR and USD (2018: EUR and USD) with interest rates from 1.60% to 6.38% (2018: 0.35% to 6.38%) and maturities from 2020 to 2026 (2018: 2019 to 2024).

The bonds issued by foreign banks are financial instruments issued in EUR (2018: EUR and USD) with interest rates from 0.12% to 5.38% (2018: 0.13% to 5.38%) and maturities from 2020 to 2026 (2018: 2019 to 2024).

The bond issued by a domestic company is a financial instrument issued in USD (2018: USD) with interest rate 5.88% (2018: 5.88%) and maturity in 2022 (2018: 2022).

The bonds issued by foreign companies are financial instruments issued in EUR (2018: EUR) with interest rates from 2.00% to 2.63% (2018: 2.00% to 2.63%) and maturities in 2022 (2018: 2022).

Participations in investment funds comprise investments in various domestic open investment funds.

Equity securities comprise investments in several domestic and foreign companies.

As at 31 December 2019 and 2018 investment securities were not pledged as collateral.

21. INVESTMENT SECURITIES (CONTINUED)

Movements in unrealized gains from financial assets at fair value through other comprehensive income value adjustment:

in HRK million

	2019	2018
At 1 January	**23.5**	**51.5**
Total net unrealized (loss)/gain of the year	*83.3*	*(34.2)*
Net unrealized gain for the year	125.1	(23.8)
Recycled to profit or loss	(41.8)	(10.4)
Net deferred tax	(15.0)	6.2
At 31 December	**91.8**	**23.5**

Movement in gross carrying amount of financial assets at fair value through other comprehensive income:

in HRK million

	2019 Stage 1	2018 Stage 1
At 1 January	**4,466.1**	**4,684.4**
Increases due to origination and acquisition	1,158.3	1,271.7
Changes in the gross carrying amount (increases)	804.7	910.9
Changes in the gross carrying amount (decreases)	(879.9)	(794.3)
Decreases due to derecognition	(1,473.5)	(1,606.6)
At 31 December	**4,075.7**	**4,466.1**

Movement in impairment losses of financial assets at fair value through other comprehensive income:

in HRK million

	2019 Stage 1	2018 Stage 1
At 1 January	**(7.4)**	**(3.0)**
Increases due to origination and acquisition	(0.9)	(14.1)
Changes due to change in credit risk (net allocation)	(0.6)	(3.3)
Changes due to change in credit risk (net release)	6.8	12.0
Decreases due to derecognition	0.5	1.0
At 31 December	**(1.6)**	**(7.4)**

22. INVESTMENT PROPERTY

in HRK million

	2019	2018
Acquisition cost		
At 1 January	**10.9**	**11.3**
Revaluation	(2,4)	-
Disposals	(0.6)	(0.4)
Transfer from disposal groups classified as held for sale	14.1	-
At 31 December	**22.0**	**10.9**
Accumulated depreciation		
At 1 January	**2.0**	**2.1**
Depreciation for the year	0.2	0.2
Disposals	(0.3)	(0.3)
At 31 December	**1.9**	**2.0**
Impairment		
At 1 January	**2.8**	**2.8**
Impairment for the year	0.7	-
Disposals	(0.1)	-
At 31 December	**3.4**	**2.8**
Book value		
At 1 January	6.1	6.4
At 31 December	**16.7**	**6.1**

Increase in 2019 resulted from reclassification of one property from portfolio of assets held for sale into investment property portfolio due to renting of major part of the property.

The estimated fair value of investment property as at 31 December 2019 amounted to HRK 18.9 million (2018: HRK 8.2 million). The fair value is determined by applying the income approach and is based on the estimated rental value of the properties.

Information about the fair value hierarchy as at 31 December 2019 and 31 December 2018 is as follows:

in HRK million

	2019 Level 3	2018 Level 3
Investment property	18.9	8.2

The property rental income earned from investment property, all of which was leased out under operating leases, amounted to HRK 1.8 million (2018: 1.7 million) and is presented within other operating income.

The direct operating expenses relating to the investment properties that generated revenue during the reporting period are below HRK 0.1 million in both comparative periods while direct operating expenses relating to the investment properties that did not generate any revenue during the reporting period amounted to HRK 0.3 million (2018: HRK 0.1 million).

Investment property is not subject to a mortgage or to a fiduciary relationship.

23. PROPERTY AND EQUIPMENT

in HRK million

	Own property and equipment			Right of use assets		
	Land and buildings	Computers, vehicles and other equipment	Assets under construction	Land and buildings	Vehicles and other equipment	Total
Acquisition cost/revalued amount						
At 1 January 2019	**375.9**	**292.2**	**4.8**	**-**	**-**	**672.9**
Recognition at initial application of IFRS 16	-	-	-	60.2	24.2	84.4
Additions	4.9	7.9	5.0	2.4	-	20.2
Transfer from assets under construction	4.6	3.4	(8.0)	-	-	-
Revaluation	0.4	-	-	-	-	0.4
Disposals	(4.0)	(49.7)	-	-	-	(53.7)
Other movements	-	-	-	20.5	(0.1)	20.4
At 31 December 2019	**381.8**	**253.8**	**1.8**	**83.1**	**24.1**	**744.6**
Accumulated depreciation	-	-	-	-	-	-
At 1 January 2019	**127.9**	**241.2**	**-**	**-**	**-**	**369.1**
Depreciation for the year 2019	8.8	8.7	-	13.4	5.7	36.6
Disposals	(3.3)	(47.6)	-	-	-	(50.9)
At 31 December 2019	**133.4**	**202.3**	**-**	**13.4**	**5.7**	**354.8**
Impairment	-	-	-	-	-	-
At 1 January 2019	**82.8**	**17.8**	**-**	**-**	**-**	**100.6**
Impairment for the year 2019	3.8	4.7	-	-	-	8.5
Disposals	(0.8)	(2.0)	-	-	-	(2.8)
At 31 December 2019	**85.8**	**20.5**	**-**	**-**	**-**	**106.3**
Book value	-	-	-	-	-	-
1 January 2019	165.2	33.2	4.8	-	-	203.2
31 December 2019	**162.6**	**31.0**	**1.8**	**69.7**	**18.4**	**283.5**

Other movements in Right of use assets resulted from recognition of additional lease liability due to significant increase in price for one long term lease contract, which was also subject to indexation.

23. PROPERTY AND EQUIPMENT (CONTINUED)

in HRK million

	Land and buildings	Computers, vehicles and other equipment	Assets under construction	Total
Acquisition cost/revalued amount				
At 1 January 2018	**369.2**	**299.4**	**5.8**	**674.4**
Additions	3.4	10.7	10.9	25.0
Transfer from assets under construction	4.9	1.9	(6.8)	-
Revaluation	(0.9)	-	-	(0.9)
Disposals	(0.7)	(19.8)	(5.1)	(25.6)
Transfer to assets held for sale	-	-	-	-
At 31 December 2018	**375.9**	**292.2**	**4.8**	**672.9**
Accumulated depreciation				
At 1 January 2018	**120.9**	**249.2**	**-**	**370.1**
Depreciation for the year 2018	7.1	9.5	-	16.6
Disposals	(0.1)	(17.5)	-	(17.6)
Transfer to assets held for sale	-	-	-	-
At 31 December 2018	**127.9**	**241.2**	**-**	**369.1**
Impairment				
At 1 January 2018	**80.6**	**19.0**	**0.8**	**100.4**
Impairment for the year 2018	2.7	0.9	-	3.6
Disposals	(0.5)	(2.1)	(0.8)	(3.4)
Transfer to assets held for sale	-	-	-	-
At 31 December 2018	**82.8**	**17.8**	**-**	**100.6**
Book value				
1 January 2018	167.7	31.2	5.0	203.9
31 December 2018	**165.2**	**33.2**	**4.8**	**203.2**

The amount of fully depreciated Bank's property and equipment at 31 December 2019 amounts to HRK 208.4 million (2018: HRK 235.2 million).

Information about the fair value hierarchy as at 31 December 2019 and 31 December 2018 is as follows:

in HRK million

	2019 Level 3	2018 Level 3
Land and buildings	162.6	165.2

23. PROPERTY AND EQUIPMENT (CONTINUED)

The last revaluation of Bank's land and buildings was performed at the end of 2019 and was based on estimations performed by independent internal and external experts. Certain significant inputs were used that are not observable (Level 3 of fair value hierarchy).

Valuation techniques used to determine fair value of land and buildings were:

- income approach, where the fair value was determined based on capitalization of the future cash flows, i.e. net rental income (adequate interest rate was applied and the prospective economic remaining useful life was considered), and
- current replacement cost method, i.e. the cost approach (the fair value of the physical structure, including the outside and technical facilities was determined as the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence; the land component fair value determined using the market approach).

If the land and buildings were measured by acquisition cost, the book value would be as follows:

in HRK million

	2019	2018
Acquisition cost	367.1	361.6
Accumulated depreciation	(130.7)	(125.4)
Impairment	(85.8)	(82.7)
Net book value	**150.6**	**153.5**

Property and equipment of the Bank are not subject to a mortgage or to a fiduciary relationship.

24. INTANGIBLE ASSETS

in HRK million

	Software	Other intangible assets	Assets under construction	Total
Acquisition cost				
At 1 January 2019	**306.4**	**0.7**	**9.4**	**316.5**
Additions	18.2	-	9.2	27.4
Transfer from assets in construction	9.1	-	(9.1)	-
Disposals	(27.2)	-	(4.4)	(31.6)
At 31 December 2019	**306.5**	**0.7**	**5.1**	**312.3**
Accumulated amortization				
At 1 January 2019	**250.9**	**0.7**	**-**	**251.6**
Amortization for the year 2019	13.0	-	-	13.0
Disposals	(26.5)	-	-	(26.5)
At 31 December 2019	**237.4**	**0.7**	**-**	**238.1**
Impairment				
At 1 January 2019	**5.0**	**-**	**-**	**5.0**
Impairment for the year 2019	18.3	-	4.2	22.5
Disposals	(0.8)	-	(4.2)	(5.0)
At 31 December 2019	**22.5**	**-**	**-**	**22.5**
Book value				
1 January 2019	50.5	-	9.4	59.9
31 December 2019	**46.6**	**-**	**5.1**	**51.7**

in HRK million

	Software	Other intangible assets	Assets under construction	Total
Acquisition cost				
At 1 January 2018	**289.2**	**0.7**	**4.7**	**294.6**
Additions	10.7	-	15.7	26.4
Transfer from assets in construction	11.0	-	(11.0)	-
Disposals	(4.5)	-	-	(4.5)
At 31 December 2018	**306.4**	**0.7**	**9.4**	**316.5**
Accumulated amortization				
At 1 January 2018	**244.5**	**0.7**	**-**	**245.2**
Amortization for the year 2018	9.9	-	-	9.9
Disposals	(3.5)	-	-	(3.5)
At 31 December 2018	**250.9**	**0.7**	**-**	**251.6**
Impairment				
At 1 January 2018	**1.4**	**-**	**-**	**1.4**
Impairment for the year 2018	4.6	-	-	4.6
Disposals	(1.0)	-	-	(1.0)
At 31 December 2018	**5.0**	**-**	**-**	**5.0**
Book value				
1 January 2018	43.3	-	4.7	48.0
31 December 2018	**50.5**	**-**	**9.4**	**59.9**

The amount of fully amortized Bank's intangible assets at 31 December 2019 amounts to HRK 122.1 million (2018: HRK 107.6 million).

25. NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

in HRK million

	2019	2018
Property and equipment	**5.1**	**20.3**
Property and equipment	7.3	21.3
Impairment of property and equipment	(2.2)	(1.0)
Investment property	**-**	**2.1**
Total assets	**5.1**	**22.4**

Property and equipment as presented in the table above include the net amount of HRK 5.1 million (2018: HRK 19.6 million) of land and buildings and as at 31 December 2018 HRK 0.7 million of IT related assets and HRK 2.1 million of investment properties classified as held for sale.

26. OTHER ASSETS

in HRK million

	2019	2018
Deferred expenses	18.1	34.4
Assets acquired in lieu of uncollected receivables	12.8	13.5
Receivables based on card business	7.0	11.7
Payments for the purchase price and taxes for the property in the repossession process	2.9	1.2
Other advances	1.3	1.9
Receivables for VAT prepayment	1.2	2.2
Inventories	1.2	1.4
Other assets	7.4	6.3
Impairment losses	(0.9)	(0.9)
Total	**51.0**	**71.7**

Movement in impairment losses of other assets:

in HRK million

	2019	2018
Impairment losses at the beginning of the year	**(0.9)**	**(0.6)**
Net additions charged during the year	-	(0.3)
Impairment losses at the end of the year	**(0.9)**	**(0.9)**

27. CURRENT ACCOUNTS AND DEPOSITS FROM BANKS

in HRK million

	2019	2018
Demand deposits	113.2	175.1
Term deposits	3.3	3.2
Total	**116.5**	**178.3**

28. CURRENT ACCOUNTS AND DEPOSITS FROM CUSTOMERS

a) By type of customer

in HRK million

	2019	2018
Deposits from individuals	8,888.6	9,480.8
Deposits from corporate clients	3,438.2	3,763.0
Deposits from public sector	225.2	250.0
Deposits from other customers	424.6	103.4
Total	**12,976.6**	**13,597.2**

b) By term

in HRK million

	2019	2018
Demand deposits	9,818.0	8,950.0
Term deposits	3,158.6	4,647.2
Total	**12,976.6**	**13,597.2**

29. BORROWINGS

in HRK million

	2019	2018
Domestic banks	347.2	358.9
Total	**347.2**	**358.9**

Contractual interest rates on borrowings as at 31 December 2019 are in the range from 0.00% to 5.12% (31 December 2018: 0.00% to 5.12%) and maturities ranging from 2020 to 2029 (2018: from 2019 to 2029).

30. SUBORDINATED DEBT

in million

Currency	Interest rate	2019 Amount in currency	2019 Amount in HRK	2018 Amount in currency	2018 Amount in HRK
EUR	6-month EURIBOR+4,52%	138.6	1,031.9	138.6	1,028.4
Total			**1,031.9**		**1,028.4**

Subordinated debt is to Addiko Bank AG, Vienna with initial maturity up to 6 years. Repayment of these instruments before the redemption date is possible only under conditions stated in Regulation EU 575/2013 of the European Parliament and of the Council. Repayment of these funds in case of liquidation is subordinated to all other deposits and liabilities.

Subordinated debt is used as supplementary capital for the purpose of calculation of regulatory capital and capital adequacy according to articles 62 to 65 of Regulation (EU) No 575/2013 of the European Parliament and of the Council and CNB regulatory requirements.

31. PROVISIONS

in HRK million

	2019	2018
Legal provisions	167.5	59.1
Provisions for other employee benefits	28.4	27.9
Provisions for commitments and contingent liabilities	16.4	19.3
Provisions for severance (termination) payments	8.2	5.7
Provisions for restructuring expenses	3.9	3.1
Other provisions	16.3	15.9
Total	**240.7**	**131.0**

The Bank accrues for contractual obligations, unused vacation days and variable remunerations, compensation or termination benefits to employees laid off under restructuring and obligations according to onerous contracts.

The item “Legal provisions” includes provisions for legal risks in connection with recent development in relation to legal matters on CHF currency clauses in Croatia. Further, outstanding obligations such as pending legal disputes in connection with the loan business are disclosed under this item. No further disclosures according to IAS 37.92 are made in order to protect the Bank’s position in these legal disputes.

The calculated amount for provisions is based on the best possible estimates of expected outflows of resources embodying economic benefits as at the reporting date, including also the consideration of risks and uncertainties which are expected with regard to the fulfilment of the obligation. Outflows of resources embodying economic benefits resulting from these measures are to be expected in the foreseeable future.

31. PROVISIONS (CONTINUED)

Movement in provisions for liabilities and charges:

in HRK million

	2019 Contingent liabilities	2019 Legal cases	2019 Retirement / termination	2019 Other employee benefits	2019 Restructuring expenses	2019 Other provisions	2019 Total
Provisions at the beginning of the year	**19.3**	**59.1**	**5.7**	**27.9**	**3.1**	**15.9**	**131.0**
Charges recognized in statement of profit or loss	8.7	132.3	10.7	18.5	0.8	0.5	171.5
Releases recognized in statement of profit or loss	(11.6)	(16.1)	-	(4.0)	-	(0.1)	(31.8)
Utilization	-	(7.8)	(8.2)	(14.0)	-	-	(30.0)
Provisions at the end of the year	**16.4**	**167.5**	**8.2**	**28.4**	**3.9**	**16.3**	**240.7**

in HRK million

	2018 Contingent liabilities	2018 Legal cases	2018 Retirement / termination	2018 Other employee benefits	2018 Restructuring expenses	2018 Sale of subsidiaries	2018 Other provisions	2018 Total
Provisions at the beginning of the year	**24.0**	**92.2**	**0.1**	**25.9**	**4.5**	**12.1**	**22.1**	**180.9**
Impact of adopting IFRS 9	(0.5)	-	-	-	-	-	-	(0.5)
Charges recognized in statement of profit or loss	13.1	18.7	5.8	19.0	3.1	-	81.6	141.3
Releases recognized in statement of profit or loss	(17.3)	(6.4)	-	(2.1)	(1.2)	(12.1)	(87.8)	(126.9)
Utilization	-	(45.4)	(0.2)	(14.9)	(3.3)	-	-	(63.8)
Provisions at the end of the year	**19.3**	**59.1**	**5.7**	**27.9**	**3.1**	**(0.0)**	**15.9**	**131.0**

32. OTHER LIABILITIES

in HRK million

	2019	2018
Lease liabilities	78.6	-
Items in the course of settlement	59.1	58.7
Liabilities to suppliers	35.4	39.1
Payables based on card business	24.4	49.2
Due to employees	16.5	17.2
Temporary deposits made as investments in domestic companies	6.2	5.7
Payables for VAT	3.3	3.6
Unallocated foreign currency receipts	1.7	3.4
Other liabilities	3.6	6.9
Total	**228.8**	**183.8**

33. SHARE CAPITAL

The direct owner of the Bank is Addiko Bank AG, Vienna, Austria.

Shareholders of the Bank as at 31 December are as follows:

	2019 in HRK million	2019 %	2018 in HRK million	2018 %
Addiko Bank AG, Wien	2,558.9	100.00	2,558.9	100.00
Total	**2,558.9**	**100.00**	**2,558.9**	**100.00**

The movement in the number of shares was as follows:

	2019 Shares	2019 in HRK million	2018 Shares	2018 in HRK million
Balance as at 1 January	1,248,243	2,558.9	1,248,243	2,558.9
Balance as at 31 December	**1,248,243**	**2,558.9**	**1,248,243**	**2,558.9**

At the end of 2019 Addiko Bank d.d. had 1,248,243 (2018: 1,248,243) issued ordinary shares of nominal value HRK 2,050 (2018: HRK 2,050).

34. RESERVES

Movement in reserves was as follows:

in HRK million

	Legal reserve	Other reserves	Revaluation reserve	Fair value reserve	Total
At 1 January 2018	**5.3**	**-**	**15.3**	**51.5**	**72.1**
Movement in fair value of financial assets at fair value through other comprehensive income	-	-	-	(23.8)	(23.8)
Net realized gain on financial assets at fair value through other comprehensive income	-	-	-	(10.4)	(10.4)
Revaluation of buildings and land	-	-	(2.1)	-	(2.1)
Transfer to retained earnings	-	-	(0.5)	-	(0.5)
Income tax relating to components of other comprehensive income	-	-	0.4	6.2	6.6
Distribution of profit for the year 2017	122.7	4.6	-	-	127.3
Other changes	-	5.6	-	-	5.6
At 31 December 2018	**128.0**	**10.2**	**13.1**	**23.5**	**174.8**
Movement in fair value of financial assets at fair value through other comprehensive income	-	-	-	125.1	125.1
Net realized gain on financial assets at fair value through other comprehensive income	-	-	-	(41.8)	(41.8)
Revaluation of buildings and land	-	-	(3.2)	-	(3.2)
Transfer to retained earnings	-	-	(0.2)	-	(0.2)
Income tax relating to components of other comprehensive income	-	-	0.6	(15.0)	(14.4)
At 31 December 2019	**128.0**	**10.2**	**10.3**	**91.8**	**240.3**

The legal reserve has been created in accordance with the Croatian Company Act, which requires 5% of the net profit for the year to be transferred to this reserve, until it reaches 5% of issued share capital. Legal reserve can be used for covering prior period losses if the losses are not covered by current year profits or if other reserves are not available. The legal reserve is not distributable to the shareholders.

The properties revaluation reserve arises on the revaluation of land and buildings. When revalued land or buildings are sold, the portion of the properties revaluation reserve that relates to that asset, and is effectively realized, is transferred directly to retained earnings.

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

Other reserves are created in accordance to the General assembly decision and can be used for purposes defined by the law or the General assembly decision.

35. COMMITMENTS AND CONTINGENT LIABILITIES

in HRK million

	2019	2018
Undrawn loans and loan commitments	923.0	990.2
Other risk off-balance sheet items	848.7	954.7
Guarantees	516.4	447.3
Letters of credit	25.1	41.1
Total	**2,313.2**	**2,433.3**

Provisions for liabilities and charges are presented in the Note 31.

36. LEASES

a) Leases where the Bank is the lessor

1) Finance leases

As at 31 December 2019 the receivables under finance lease are included in Loans and receivables from customers, breaking down as follows:

in HRK million

	2019
Minimum lease payments (agreed instalments + guaranteed residual value)	70.5
Unguaranteed Residual Value (+)	-
Gross investment value (=)	70.5
up to 1 year	17.4
from 1 year to 2 years	20.5
from 2 year to 3 years	20.6
from 3 year to 4 years	12.0
from 4 year to 5 years	-
over 5 years	-
Unrealized financial income (interest) (-)	(4.7)
Net investment value (=)	65.8
Present value of non-guaranteed residual values	-
Present value of the minimum lease payments	65.8
up to 1 year	15.2
from 1 year to 2 years	19.0
from 2 year to 3 years	19.7
from 3 year to 4 years	11.9
from 4 year to 5 years	-
over 5 years	-

36. LEASES (CONTINUED)

As at 31 December 2018 the receivables under finance lease are included in Loans and receivables from customers, breaking down as follows:

in HRK million

	2018
Minimum lease payments (agreed instalments + guaranteed residual value)	89.9
Unguaranteed Residual Value (+)	-
Gross investment value (=)	89.9
up to 1 year	14.9
from 1 to 5 years	75.0
over 5 years	-
Unrealized financial income (interest) (-)	(7.5)
Net investment value (=)	82.4
Present value of non-guaranteed residual values	-
Present value of the minimum lease payments	82.4
up to 1 year	12.1
from 1 to 5 years	70.3
over 5 years	-

Assets leased under finance leases break down as follows:

in HRK million

	2019	2018
Movables	70.5	89.9
Total	**70.5**	**89.9**

2) Operating leases

As at 31 December 2019 the future minimum lease payments from non-cancellable operating leases were as follows:

in HRK million

	2019
Not later than 1 year	3.3
Later than 1 year but not later than 2 years	2.5
Later than 2 years but not later than 3 years	2.4
Later than 3 years but not later than 4 years	2.4
Later than 4 years but not later than 5 years	2.3
Later than 5 years	0.2
Total	**13.1**

As at 31 December 2018 the future minimum lease payments from non-cancellable operating leases were as follows:

in HRK million

	2018
Not later than 1 year	1.3
Later than 1 year but not later than 5 years	4.9
Later than 5 years	0.4
Total	**6.6**

36. LEASES (CONTINUED)

b) Leases where the Bank is the lessee

As at 31 December 2019 the undiscounted maturity analysis of lease liabilities under IFRS 16 was as follows:

in HRK million

	2019
Not later than 1 year	15.6
Later than 1 year but not later than 5 years	47.9
Later than 5 years	20.2
Total	**83.7**

As at 31 December 2019 the expense relating to payments not included in the measurement of the lease liability was as follows:

in HRK million

	2019
Short-term leases	1.3
Leases of low value assets	4.4
Variable lease payments	3.0
Total	**8.7**

In 2019 the Bank had total cash outflows for leases of HRK 24.9 million.

As at 31 December 2019 the Bank was committed to short-term leases and the total commitment at that date was less then HRK 0.1 million.

As at 31 December 2018 the future undiscounted minimum lease payments from non-cancellable operating leases under IAS 17 were as follows:

in HRK million

	2018
Not later than 1 year	21.6
Later than 1 year but not later than 5 years	63.2
Later than 5 years	23.6
Total	**108.4**

37. DERIVATIVE FINANCIAL INSTRUMENTS

in HRK million

	2019 Notional amount	2019 Fair value assets	2019 Fair value liabilities
Derivative financial instruments held for trading			
Foreign exchange forward contracts	714.6	0.8	0.2
Foreign exchange swaps	898.9	0.4	0.8
Cross currency swaps	598.5	-	3.4
Interest rate swaps	502.5	3.1	4.5
Total	**2,714.5**	**4.3**	**8.9**

in HRK million

	2018 Notional amount	2018 Fair value assets	2018 Fair value liabilities
Derivative financial instruments held for trading			
Foreign exchange forward contracts	460.4	0.4	0.1
Foreign exchange swaps	966.5	0.8	0.7
Cross currency swaps	582.2	3.4	0.6
Interest rate swaps	421.8	1.1	2.8
Total	**2,430.9**	**5.7**	**4.2**

38. RELATED PARTY TRANSACTIONS

Addiko Bank d.d., Zagreb is directly owned by Addiko Bank AG, Vienna, to whom and to whose affiliates, the Bank provides banking services.

Balances with related parties at 31 December were as follows:

in HRK million

	2019	2019	2019	2019
	Parent company	Entities of the parent company group	Key management	Other related parties
Assets				
Loans and receivables	1.6	2.7	4.4	-
Deposits	10.1	0.7	-	-
Derivative financial assets	0.4	-	-	-
Other assets	-	0.6	-	-
Liabilities				
Subordinated debt	1,031.9	-	-	-
Deposits	34.3	46.0	3.3	-
Derivative financial liabilities	7.9	-	-	-
Other liabilities	4.0	3.0	0.1	-
Commitments and contingent liabilities	-	0.8	0.4	-

in HRK million

	2018	2018	2018	2018
	Parent company	Entities of the parent company group	Key management	Other related parties
Assets				
Loans and receivables	1.6	0.8	8.4	0.5
Deposits	0.3	1.0	-	-
Derivative financial assets	4.0	-	-	-
Other assets	-	0.7	-	33.1
Liabilities				
Subordinated debt	1,028.4	-	-	-
Deposits	58.6	23.9	8.1	-
Derivative financial liabilities	3.4	-	-	-
Other liabilities	3.6	1.4	0.1	0.1
Commitments and contingent liabilities	-	-	0.9	-

Assets with related parties include mostly granted loans, balances on transaction accounts, receivables based on card business and other receivables.

Liabilities include mostly balances on transaction accounts, accepted deposits, subordinated debt and derivative instruments.

Commitments and contingent liabilities include mostly undrawn credit lines and unused card limits.

38. RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with related parties were as follows:

in HRK million

	2019 Parent company	2019 Entities of the parent company group	2019 Key management	2019 Other related parties
Interest income	7.5	0.1	0.1	-
Interest expense	(51.0)	-	-	-
Fee and commission income	-	0.5	-	-
Fee and commission expense	(0.2)	-	-	-
Net trading loss	(4.8)	-	-	-
Other income	16.0	8.8	-	-
Other expenses	(4.4)	(3.0)	(0.4)	-
Total	**(36.9)**	**6.4**	**(0.3)**	**-**

in HRK million

	2018 Parent company	2018 Entities of the parent company group	2018 Key management	2018 Other related parties
Interest income	6.3	3.8	0.3	-
Interest expense	(71.9)	-	-	-
Fee and commission income	-	0.3	-	-
Fee and commission expense	(3.5)	(0.1)	-	(0.8)
Net trading gain	9.5	0.1	-	-
Other income	10.2	7.3	-	0.1
Other expenses	(3.6)	(0.4)	(0.2)	(0.5)
Total	**(53.0)**	**11.0**	**0.1**	**(1.2)**

Interest income includes mostly income from granted loans.

Other income includes mostly fee income from card processing services, income from services provided by different Bank's departments, income from trading in foreign currencies and derivatives and other similar income.

Interest expenses include mostly interest on subordinated debt and interest on accepted term deposits.

Other expenses include mostly expenses for fees and commissions, losses from trading in derivatives, software maintenance and similar other expenses.

38. RELATED PARTY TRANSACTIONS (CONTINUED)

Key management compensation

The Bank considers that the key management personnel include Management and Supervisory Board members, procurator, as well as managers with key or controlling functions.

The following table summarizes remuneration paid to the key management personnel:

in HRK million

	2019	2018
Salaries and other short-term benefits		
Net salaries	11.9	17.2
Tax and surtax expenses	6.1	9.3
Contributions on salaries	3.4	5.2
Pension insurance expenses	2.2	3.7
Total	**23.6**	**35.4**

Compensation to the Supervisory Board members for the year 2019 amounted to HRK 0.4 million (2018: HRK 0.3 million).

39. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise of the following balances with original maturity up to 90 days at most:

in HRK million

	2019	2018
Cash in hand, nostros and funds on CNB accounts	1,806.3	2,036.0
Placements with and loans to other banks with original maturity up to 3 months	59.4	-
Total	**1,865.7**	**2,036.0**

40. FAIR VALUE OF FINANCIAL INSTRUMENTS

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 Bank has access at that date.

The carrying values of cash and balances with the central bank are generally deemed to approximate their fair value.

Financial instruments at fair value through profit or loss and financial instruments at fair value through other comprehensive income are measured at fair value. Loans and receivables are measured at amortized cost less impairment.

The following summarizes the major methods and assumptions used in estimating the fair value of financial instruments:

- The fair value of securities (financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income) is either based on available market prices, NPV (net present value) of discounted cash flow models, so called theoretical price, or other complex pricing models including publicly available sources such as Bloomberg-defined pricing tools. In case where there are no market prices available or via other terminals available to regular market participants, the Bank estimates the fair value of security under the prescribed procedures such as using amortizing cost for debt securities, DCF models or peer analysis in case comparison with similar instruments is required. The latter would then assume the market availability of comparable instruments' prices.

- The fair value of derivatives is calculated based on theoretical price. Calculation encompasses net present value of discounted cash flow models separately for each leg of derivative. Fair value of derivative then amounts to the difference between NPVs of each derivative leg. The Bank uses market data like yield curves, FX spot and forward rates and counterparty credit rating, for assessment of fair value as related underlying for specific derivative. Methodology encompasses assessment of FX forward, FX swap, interest rate swap and cross currency swap daily price. Fair value of a derivative is calculated by decomposing the instrument to its underlying legs, and by discounting each of its constituents to the present value.

- The fair value of loans and receivables is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates. Fair value calculation of loans and receivables involve credible, market-oriented function with the inclusion of swap synthetic curves for discount factor definition. In this context, discount factors for each balance sheet item are mostly dependent on the market funding price and risk premium dependent on the respective client risk. Additionally, disclosed figures are in compliance with the FINREP classification.

For balance sheet items with no defined maturity, the fair value is the same as the nominal value. The value of long-term relationships with depositors is not taken into account in estimating fair values.

40. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents the comparison of the carrying amounts and fair values as at 31 December 2019 and 31 December 2018:

in HRK million

	2019 Carrying amount	2019 Fair value	2018 Carrying amount	2018 Fair value
Loans and receivables	11,282.7	13,549.9	11,126.5	12,131.9
Due to customers	14,472.2	14,446.7	15,173.2	15,256.1

Fair value measurements recognized in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following tables present fair value measurements recognized in the statement of financial position as at 31 December 2019 and 31 December 2018:

in HRK million

	2019 Level1	2019 Level2	2019 Level3	2019 Total
Financial assets at fair value through profit or loss				
Trading assets	41.8	80.6	-	122.4
Derivative financial assets	-	4.3	-	4.3
Investment securities				
Financial assets at fair value through other comprehensive income	3,432.9	676.9	2.9	4,112.7
Non-trading financial assets mandatorily at fair value through profit or loss	121.9	-	-	121.9
Total financial assets	**3,596.6**	**761.8**	**2.9**	**4,361.3**
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	-	(8.9)	-	(8.9)
Total financial liabilities	**-**	**(8.9)**	**-**	**(8.9)**

40. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

in HRK million

	2018 Level 1	2018 Level 2	2018 Level 3	2018 Total
Financial assets at fair value through profit or loss				
Trading assets	99.1	-	-	99.1
Derivative financial assets	-	5.7	-	5.7
Investment securities				
Financial assets at fair value through other comprehensive income	4,395.1	88.0	2.9	4,486.0
Non-trading financial assets mandatorily at fair value through profit or loss	121.2	-	-	121.2
Total financial assets	**4,615.4**	**93.7**	**2.9**	**4,712.0**
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	-	(4.2)	-	(4.2)
Total financial liabilities	**-**	**(4.2)**	**-**	**(4.2)**

During the year 2019 there was a reclassification of the part of government debt securities portfolio in the amount of HRK 206.7 million from Level 1 to Level 2 due to definition of liquidity rules. In the year 2018 participations in investment funds in the amount of HRK 131.8 million were reclassified from Level 2 to Level 1 and equity securities in the amount of HRK 20.4 million from Level 3 to Level 2 due to the reassessment of observability of market inputs for pricing model. There were no changes to the methodology used in determining levels of the fair value hierarchy.

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets which are recorded at fair value:

in HRK million

	At 1 January 2019	At 31 December 2019
Financial assets at fair value through other comprehensive income:		
Equity securities	2.9	2.9
Total level 3 financial assets	**2.9**	**2.9**

in HRK million

	At 1 January 2018	Disposal	Total gains/ (losses) recorded in profit or loss	Transfer from Level 3 to Level 2	At 31 December 2018
Financial assets at fair value through other comprehensive income:					
Equity securities	23.4	(0.1)	-	(20.4)	2.9
Financial assets at fair value through profit or loss:					
Derivative financial assets	1.4	-	(1.4)	-	-
Total level 3 financial assets	**24.8**	**(0.1)**	**(1.4)**	**(20.4)**	**2.9**

41. RISK MANAGEMENT

This note provides details of the Bank risk exposure which is defined as the amount on-balance items as well as off-balance items, which are not decreased for amount of allocated risk provisions. More precisely, the credit risk exposure comprises the gross carrying amount (or nominal value in the case of off-balance-sheet exposures) without taking into account expected credit losses, provisions for guarantees, any collateral held, netting effects, other credit enhancements or credit risk mitigating transactions. Market values are used to calculate the relevant exposure for securities, whereas amortised cost is used for loans.

Risk Management note describes the methods used by management to identify, measure and manage risk in order to preserve Bank’s capital. The main goal of the Bank is to adequately and efficiently manage all major risks, which essentially requires systematic and deliberate planning and management, as well as maintaining an acceptable level of risk and profitability.

Due to this reason, the Bank has established a strategic risk management function, conducted by the Risk Control division. In this way, risk identification, assessment and measurement and management processes are established for major risks and unexpected events, all in order to achieve a stable and profitable business performance with the Bank's improved performance indicators and the quality of the portfolio in terms of risk and profitability. Also, Bank steers and monitors its risks across all business segments, with the aim of optimising the risk/performance profile and guaranteeing risk-bearing capacity at all times and therefore protecting the bank’s creditors.

Therefore, Risk strategy is derived from the business strategy and describes the planned business structure, strategic development and growth, taking into consideration processes, methodologies and the organisational structure relevant for the management of risk factors. As such, the risk strategy represents the bridge between the Bank’s business strategy and risk positioning. It is also a management tool of the highest level for the purposes of Bank’s risk steering and as such it provides a framework for controlling, monitoring and limiting risks inherent in the banking business, as well as ensuring the adequacy of the internal capital, the bank's liquidity position and the overall through-the-cycle profitability.

The Bank Risk Strategy reflects key risk management approaches included in the business strategy. This is mirrored in the bank’s risk objectives which will support safe and sustainable growth and ensure the preservation of the bank in line with regulatory requirements for adequate own funds with regard to risk-taking activities.

Bank has also established a Risk Appetite Framework (RAF) which sets the bank’s risk appetite and forms part of the process of development and implementation of the bank’s business and risk strategy. Furthermore, it determines the risks undertaken in relation to its risk capacity. The framework of risk appetite measures defines the risk level the bank is willing to accept. The calibration of measures takes into consideration the Budget 2019, risk strategy and the Recovery Plan giving an interlinked framework for proper internal steering and surveillance.

Additionally, one of the basic processes that the Bank is implementing as part of a strategic risk management is Internal capital adequacy assessment process ("ICAAP"). The main purpose of internal capital adequacy assessment process is to determine a positive level of capital which is high enough to cover the risks the Bank is exposed to and which are assessed as material. The ICAAP serves as an assessment of internal capital adequacy in relation to the Bank's risk profile and as an implementation of the Bank's strategy appropriate for maintaining an adequate internal capital level.

41. RISK MANAGEMENT (CONTINUED)

Also, by monitoring process of utilization of defined risk profile on a daily, monthly and quarterly basis, the Bank conducts limits utilization and steering process. The implementation and monitoring of various levels of limits from the product and client level to the level of different sub-portfolios such as market segments, regions, rating classes, levels of approved volumes, exposure levels etc., enables informative and proactive approach to risk management and strategic decision making which is based on a group of factors and also on interaction with other influential factors.

Achieving Bank's strategic targets and ways of managing risk are prescribed within mentioned Risk Strategy and a number of related policies, regulations and directives in which the basic guidelines according to law regulations and Addiko Group requests are defined.

Main risks that the Bank is exposed to emerge from the Bank's business activity and economic movements, and the Bank faces them in the form of credit risk, market and liquidity risk, operational risk and other risks such as legal risk, strategic risk, reputational risk, etc.

Hereafter, basic risks monitored and continuously managed in the Bank are presented. Also, in all upcoming risk analysis, analytical data based on internal assumptions of risk management have been used, and because of that it can differ from the data presented in the Financial Statements.

41.1. Credit risk

According to the Business and Risk Strategy, Credit Risk represents the most relevant driver of Risk in the Bank. Credit risk is defined as a possible loss that could occur due to non-fulfilment of a client's contractual obligations towards credit institution.

The Bank applies appropriate policies and procedures in credit risk management.

Credit risk management also includes monitoring and reporting of Concentration risk, Currency induced credit risk and Interest rate induced credit risk which represent forms of credit risk and due to their great importance for the Bank portfolio, they are monitored separately.

The process of identification, assessment, measurement and management of credit risk is being conducted on continuous basis and it encompasses the entire Bank portfolio.

Exposure to credit risk is being managed through regular analysis of existing and potential borrower's capability to pay obligations, and by changing loan limits when needed according to internal procedures and regulations prescribed by the CNB. Furthermore, credit risk is additionally being managed by obtaining collaterals which reduce Bank's exposure to credit risk. The process of credit risk reporting is conducted on a daily, monthly, quarterly and yearly basis, through reports which present current status and movement trends in the Bank portfolio. By reporting limits utilization and portfolio quality indicators overview, these reports enable effective risk management and efficient and timely decision making.

Hence, the automated production of strategically important reports is enabled within Risk Control department (on a daily, monthly, quarterly, half-yearly and yearly level), such as KRI report, Credit Risk Report, ICAAP report, Concentration Risk report, Rating Report etc. Regular monthly reporting process is set in a way that all reports are delivered according to predefined time schedule, in order to enable more efficient and more detailed analysis of portfolio structure changes and timely defining of measures for mitigation of risk level.

41. RISK MANAGEMENT (CONTINUED)

Also, the Bank uses its own rating procedures to analyse and assess each individual borrower's credit rating. The allocation of debtors to rating classes is carried out based on default probabilities on a 25-level master rating scale.

The internal capital adequacy assessment process is defined by the following regulations:

- Law on credit institutions,
- the Regulation (EU) no. 575/2013,
- Decision on the internal capital adequacy assessment process for credit institutions,
- Decision on governance arrangements.

The Bank uses IRB approach (with application of permanent partial use) to calculate Credit Risk internal capital requirements. Details to the calculation can be found in the document "Procedure for calculation of internal capital requirements for Credit Risk". In this way credit risk is directly involved in the ICAAP process.

41.1.1. Concentration risk

Concentration risk is the risk arising from each individual, direct or indirect, exposure towards one client, group of related parties that is the central counterparty or set of exposures connected by common risk factors such as the same economic sector or the same geographical area, equivalent jobs or goods, or application of similar credit risk mitigation techniques, including in particular the risks associated with large indirect credit exposures to a particular collateral provider that can lead to losses that could jeopardize the continuation of a credit institution or materially significant change in its risk profile.

Concentration within the risk refers to risk concentrations that may occur due to the interaction of various risk exposures within a single risk category. Concentration between the risks refers to the risk concentrations that may occur due to the interaction of various risk exposures at the level of the various risk categories. Interactions between different risk exposures may result from common relational risk driver or from the interaction of risk drivers.

Concentration risk arises from unequal allocation of exposure, which can arise in all risk types. One type of concentration risk is also credit risk arising from foreign currency exposures.

The Bank measures and manages concentration risk from following points of view:

- Name/ Group of Borrowers concentration,
- Sector concentration,
- Collateral type and collateral provider concentration,
- Foreign currency concentration.

Concentration risk is measured within the risk management process and through ICAAP process. The main goals of concentration risk measurement are determination of certain changes in the structure of capital allocation for credit risk, improvement of strategy of loan approval connected to credit risk and setting/analysing limits for credit risk.

41. RISK MANAGEMENT (CONTINUED)

41.1.2. Currency induced credit risk (CICR)

Currency induced credit risk is the risk of loss for the Bank when approves loans in foreign currency or with FX clause and which arises from debtor's exposure to FX risk. We define Currency induced credit risk as a negative influence of currency value change to Bank's credit portfolio.

Currency induced credit risk is measured through risk management process as well as within ICAAP process. As there is no minimum regulatory capital request for Currency induced credit risk, the Bank has implemented internal method of quantification of Currency induced credit risk which has been specified in detail in the 'Currency Induced Credit Risk Methodology and ICAAP Policy'.

41.1.3. Interest rate induced credit risk

Interest rate-induced credit risk means the risk of loss to which a credit institution assuming credit risk arising from exposures linked to variable interest rates is additionally exposed;

Interest rate induced credit risk is measured through risk management process as well as within ICAAP process. As there is no minimum regulatory capital request for Interest rate induced credit risk, the Bank has implemented internal method of quantification of Interest rate induced credit risk.

41.1.4. Country risk

Country risk means:

- the risk that the central government, the central bank and/or entities treated as central governments will not settle their liabilities to domestic creditors and/or creditors in other countries; and
- the risk that a counterparty having its head office or domicile outside the Republic of Croatia will not settle its liabilities due to economic and political factors specific for the country in which the counterparty has its head office or domicile.

Bank manages country risk by conducting an ongoing analysis of the structure and quality of the overall portfolio which is a subject to country risk and to ensure that timely and appropriate measures will be taken to reduce the country risk.

41. RISK MANAGEMENT (CONTINUED)

41.1.5. Object risk

Object risk, including risk real estate investment, is defined as a risk of loss due to change in market value of assets from Bank’s portfolio. Object risk can occur in the following cases:

- Banking: If a debtor defaults and the Bank is taking over the defaulted company and treats former collaterals (especially real estate and large producer durable goods) as own assets,
- Finance Lease: If a leasing taker defaults, the leased goods will become assets of the leasing company (repossessing),
- Objects in Bank’s ownership.

Object risk is measured and assessed based on quantitative indicators of tangible assets volume in the Bank's portfolio. Materiality of object risk is assessed based on its impact on total Bank's assets and the impact of realized and planned losses from the revaluation of tangible assets.

The process of risk level calculation is determined by the influence of change in tangible assets value within certain time period, i.e. the period in which the assets are retained in Bank's portfolio. Book value of assets is the basis for the calculation of the internal capital requirement out of object risk and represents basic parameter when assessing the object risk.

Object risk is measured within credit risk, i.e. internal capital requirement for object risk is embedded within internal capital requirement for credit risk. According to standardized approach, objects are categorized as "Other items" so the basis values are multiplied with a risk weight of 100% and afterwards with a solvency factor of 8%.

The Bank manages object risk by conducting continuous analysis of the structure and quality of total tangible assets portfolio in order to ensure timely undertaking of appropriate risk mitigation measures.

Object risk management is mostly reflected through regular evaluation of tangible assets by updated and reliable market values. If a new evaluation represents change in a book value of a real estate, adjustments in Bank's business books are performed. Real estate has the greatest share in total tangible assets, so this type of assets is affected the most by changes in market value.

Object risk management methods are prescribed by Bank's internal acts.

41.1.6. Residual risk

Residual risk is a risk of loss arising when recognized credit risk mitigation techniques used by the Bank are less effective than expected. Risk that arises from the use of credit risk mitigation techniques and represents probability of loss resulting from inability to realize a contracted risk insurance instrument in general or inability to realize it at an expected value or during an expected time period.

Residual risk is not assessed but is considered as an individual risk type and, being like that, it is not quantified individually but its impact is considered through other risks and, especially, through the real estate value stress testing.

41. RISK MANAGEMENT (CONTINUED)

41.1.7. Dilution risk

Dilution risk is a risk of loss due to a reduction in the amount of purchased receivables as a result of cash or non-cash credits to the debtor, which arise from a legal relationship with the former creditor that is the basis for receivables which are the subject of the purchase.

The Bank measures dilution risk within credit risk on quarterly basis, i.e. internal capital requirements for dilution risk represent part of internal capital requirements for credit risk and are not reported separately.

The Bank manages dilution risk by conducting continuous analysis of the structure and quality of total dilution risk relevant portfolio in order to ensure timely undertaking of appropriate risk mitigation measures.

41.1.8. Macroeconomic risk

Macroeconomic risk is defined as a risk of indirect loss which occurs due to negative/unfavourable change of the macroeconomic variables such as inflation, unemployment rate and downfall of GDP etc.
Macroeconomic risk is measured within the risk management process and through the internal capital adequacy assessment process (ICAAP).
Macroeconomic risk is quantified based on regression model with autoregressive residuals. This model describes impact of macroeconomic indicators/shocks that affect quality of the portfolio, and combined with the stress test affects capital.

41.1.9. Risk of excessive leverage

Risk of excessive leverage is a risk resulting from the vulnerability of the institution due to financial leverage or potential financial leverage and could lead to unwanted modifications of its business plan, including the forced sale of assets which could result in losses or valuation adjustment of its remaining assets.

Financial leverage means, if compared to Bank's capital, the relative size of assets, off-balance sheet liabilities and contingent liabilities for payment or delivery, or providing collateral, including liabilities based on received funding sources, retrieved liabilities, derivatives or repurchase agreements, but excluding liabilities which can be executed only during the liquidation of the institution. The risk of excessive leverage Bank measures by calculating the leverage ratio in a way to divide Bank's common equity capital, by a measure of the Bank's exposure.

41.1.10. Shadow banking risk

Shadow Banking Risk is the risk that arises from exposures to individual shadow banking entities (undertakings that carry out one or more credit intermediation activities and that are not excluded undertakings). Exposures to individual shadow banking entities pursuant to Part Four of Regulation (EU) No 575/2013 with an exposure value, after taking into account the effect of the credit risk mitigation in accordance with Articles 399 to 403 and exemptions in accordance with Articles 400 and 493(3) of that Regulation, equal to or in excess of 0.25% of the institution's eligible capital as defined in Article 4(1)(71) of Regulation (EU) No 575/2013.

41. RISK MANAGEMENT (CONTINUED)

In accordance with Bank's strategy, as well as expected assets growth in retail portfolio, there are no expected exposure increases towards shadow banking subjects, nor increases of individual exposures which amount to more than 0-25% of eligible capital, nor increases towards legal entities above internally set limits. As Shadow Banking entities need to be examined at the group of related clients level, Bank already measure Single Name Concentration Risk and therefore, within ICAAP the Bank does not allocate additional capital requirement for Shadow Banking risk.

41.1.11. Credit Valuation Adjustment risk or "CVA"

In accordance with the Regulation (EU) no. 575/2013, 'Credit Valuation Adjustment' or 'CVA' means an adjustment to the mid-market valuation of the portfolio of transactions with counterparty. That adjustment reflects the current market value of the credit risk of the counterparty to the institution, but does not reflect the current market value of the credit risk of the institution to the counterparty.

The CVA is calculated in accordance with regulatory criteria prescribed by the Regulation (EU) no. 575/2013, article 384, under the standardized method.

41.1.12. Counterparty risk

Counterparty risk is monitored within credit risk. Exposure to counterparty credit risk or CCR means the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. The methodology used for internal capital allocation to cover counterparty credit risk is defined by the EU’s Regulation 575/2013 Title II Chapter 6.

Approval and tracking of internal limit utilization is defined by the Bank’s internal procedures. In daily business functioning, dealers are informed about limit availability to conduct transactions via various internal systems and in this way, aside from other determinants, decisions are made to conduct or not conduct transaction. For repo and reverse repo business, counterparty risk is calculated via standardized approach along with the implementation of the Financial Collateral Comprehensive Method. For derivatives, counterparty credit risk is calculated via Mark-to-market Method.

41.1.13. Participation risk

Participation risk resembles credit risk, because the danger of potential losses for a credit institution due to entered participations (provided equity, profit and loss transfer agreements or binding letters of comfort as well as financial commitments) exists. This can be the result of shortfall of dividends, partial depreciations, and amortization of losses or reduction of hidden reserves. Participation risk ranges from strategic participations (closely related to banking industry) to operative participations (in the non-banking areas).

41. RISK MANAGEMENT (CONTINUED)

41.2. Reconciliation between financial instruments classes and credit risk exposure

The credit risk exposure comprises the gross carrying amount (or nominal value in the case of off-balance-sheet exposures) without taking into account expected credit losses, provisions for guarantees, any collateral held, netting effects, other credit enhancements or credit risk mitigating transactions. Market values are used to calculate the relevant exposure for securities, whereas amortised cost is used for loans.

Breakdown of net exposure within the Bank in accordance with IFRS 7.36 as at 31 December 2019:

in HRK million

31.12.2019	Performing			Non-Performing			Total	
Financial instruments	Exposure	ECLS1&2	Net	Exposure	ECL S3	Net	Exposure	Net
Cash and cash balances[1]	2,554.7	(3.6)	2,551.1	-	-	-	2,554.7	2,551.1
Loans and advances to customers	10,110.3	(105.1)	10,005.2	832.3	(601.1)	231.2	10,942.6	10,236.4
of which credit institutions	63.9	(0.1)	63.8	-	-	-	63.9	63.8
of which customer loans	10,046.4	(105.0)	9,941.5	832.3	(601.1)	231.2	10,878.7	10,172.7
Financial assets at FVTOCI[2]	4,075.7	(1.6)	4,074.1	-	-	-	4,075.7	4,074.1
On balance total	**16,740.7**	**(110.2)**	**16,630.5**	**832.3**	**(601.1)**	**231.2**	**17,573.0**	**16,861.6**
Off-balance	2,291.7	(10.3)	2,281.5	21.4	(6.1)	15.3	2,313.2	2,296.8
Total	**19,032.4**	**(120.5)**	**18,911.9**	**853.7**	**(607.2)**	**246.5**	**19,886.1**	**19,158.4**

1) The position does not include cash on hand in amount of HRK 328 million. 2) Investment securities, without equity instruments.

The following table shows the exposure in accordance with IFRS 7.36 as at 31 December 2018:

in HRK million

31.12.2018	Performing			Non-Performing			Total	
Financial instruments	Exposure	ECLS1&2	Net	Exposure	ECL S3	Net	Exposure	Net
Cash and cash balances[1]	2,776.8	(1.2)	2,775.5	-	-	-	2,776.8	2,775.5
Loans and advances to customers	9,850.8	(103.9)	9,746.9	1,371.5	(1,040.3)	331.2	11,222.3	10,078.1
of which credit institutions	2.5	-	2.5	-	-	-	2.5	2.5
of which customer loans	9,848.3	(103.9)	9,744.4	1,371.5	(1,040.3)	331.2	11,219.8	10,075.6
Financial assets at FVTOCI[2]	4,458.7	(7.4)	4,451.3	-	-	-	4,458.7	4,451.3
On balance total	**17,086.2**	**(112.5)**	**16,973.7**	**1,371.5**	**(1,040.3)**	**331.2**	**18,457.7**	**17,304.9**
Off-balance	2,410.0	(15.3)	2,394.7	23.3	(4.1)	19.3	2,433.3	2,414.0
Total	**19,496.3**	**(127.8)**	**19,368.5**	**1,394.8**	**(1,044.4)**	**350.5**	**20,891.1**	**19,718.9**

1) The position does not include cash on hand in amount of HRK 349.1 million. 2) Investment securities, without equity instruments.

41. RISK MANAGEMENT (CONTINUED)

41.3. Exposure by rating class

At 31 December 2019 roughly 15% of the loans and advances exposure to customers and banks at amortised cost is categorised as rating classes 1A to 1E and roughly 65% is categorised as rating class 2A to 2E.

The overall NPE stock development in 2019 is mainly influenced by expected stable inflow, especially in retail segment and strong reductions resulting from the executed portfolio sale, restructuring efforts and collection effects. Taking all these effects into consideration the overall non-performing exposure decreased during 2019 by HRK 541.2 million.

The classification of credit assets into risk grades is based on Addiko internal ratings. For external reporting, internal rating grades are grouped into the following five risk categories:

- 1A-1E: representing customers with a very low risk, having the best, excellent or very good credit standing;
- 2A-2E: representing customers with a good or moderate credit standing;
- 3A-3E: representing customers with a medium or high credit risk;
- Watch: representing customers with a very high credit risk or who are likely to default. This class includes customers which may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium term;
- NPE (default): one or more of the default criteria under Article 178 CRR are met: among others, interest or principal payments on a material exposure have been overdue for more than 90 days, the bank significantly doubts the customer’s credit standing, there are risk-oriented restructuring measures leading to a forborne non-performing exposure, there is a realisation of a loan loss or bankruptcy proceedings are initiated.

Addiko applies the customer view to all customer segments, including retail clients. If an obligor defaults on one deal, then the customer’s performing transactions are classified as non-performing as well.

The classifications per rating class and ECL stage can be seen in the tables below.

Loans and advances to customers and banks at amortised cost as at 31 December 2019:

in HRK million

Rating class	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
1A-1E	2,044.2	18.2	-	2,062.3
2A-2E	8,694.2	53.5	-	8,747.7
3A-3E	1,390.6	12.4	-	1,403.0
Watch	124.4	299.2	-	423.7
NPL	-	-	832.3	832.3
No rating	27.1	1.3	-	28.4
Total gross carrying amount	**12,280.5**	**384.6**	**832.3**	**13,497.3**
Loss allowance	(54.8)	(53.8)	(601.1)	(709.7)
Carrying amount	**12,225.7**	**330.8**	**231.2**	**12,787.6**

41. RISK MANAGEMENT (CONTINUED)

Loans and advances to customers and banks at amortised cost as at 31 December 2018:

in HRK million

Rating class	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
1A-1E	2,065.1	82.4	-	2,147.5
2A-2E	8,011.1	299.3	-	8,310.4
3A-3E	1,509.9	101.1	-	1,611.0
Watch	185.8	365.5	-	551.3
NPL	-	-	1,371.5	1,371.5
No rating	7.4	-	-	7.4
Total gross carrying amount	**11,779.1**	**848.4**	**1,371.5**	**13,999.0**
Loss allowance	**(42.5)**	**(62.6)**	**(1,040.4)**	**(1,145.5)**
Carrying amount	**11,736.6**	**785.7**	**331.1**	**12,853.5**

Debt instruments measured at FVTOCI as at 31 December 2019:

in HRK million

Rating class	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
1A-1E	1,857.8	-	-	1,857.8
2A-2E	2,217.9	-	-	2,217.9
3A-3E	-	-	-	-
Watch	-	-	-	-
NPL	-	-	-	-
No rating	-	-	-	-
Total gross carrying amount	**4,075.7**	**-**	**-**	**4,075.7**
Loss allowance	**(1.6)**	**-**	**-**	**(1.6)**
Carrying amount	**4,074.1**	**-**	**-**	**4,074.1**

Debt instruments measured at FVTOCI as at 31 December 2018:

in HRK million

Rating class	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
1A-1E	2,194.7	-	-	2,194.7
2A-2E	2,264.0	-	-	2,264.0
3A-3E	-	-	-	-
Watch	-	-	-	-
NPL	-	-	-	-
No rating	-	-	-	-
Total gross carrying amount	**4,458.7**	**-**	**-**	**4,458.7**
Loss allowance	**(7.4)**	**-**	**-**	**(7.4)**
Carrying amount	**4,451.3**	**-**	**-**	**4,451.3**

41. RISK MANAGEMENT (CONTINUED)

Commitments and financial guarantees given as at 31 December 2019:

in HRK million

Rating class	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
1A-1E	533.3	0.1	-	533.4
2A-2E	1,434.9	0.2	-	1,435.1
3A-3E	281.1	0.3	-	281.4
Watch	5.1	36.8	-	41.9
NPL	-	-	21.4	21.4
No rating	-	-	-	-
Total gross carrying amount	**2,254.4**	**37.4**	**21.4**	**2,313.2**
Loss allowance	**(8.3)**	**(2.0)**	**(6.1)**	**(16.4)**
Carrying amount	**2,246.0**	**35.4**	**15.3**	**2,296.8**

Commitments and financial guarantees given as at 31 December 2018:

in HRK million

Rating class	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
1A-1E	537.0	0.2	-	537.1
2A-2E	1,404.9	0.3	-	1,405.2
3A-3E	316.4	6.3	-	322.8
Watch	39.0	105.8	-	144.9
NPL	-	-	23.3	23.3
No rating	-	-	-	-
Total gross carrying amount	**2,297.4**	**112.6**	**23.3**	**2,433.3**
Loss allowance	**(8.4)**	**(6.9)**	**(4.1)**	**(19.3)**
Carrying amount	**2,289.0**	**105.7**	**19.3**	**2,414.0**

41. RISK MANAGEMENT (CONTINUED)

41.4. Exposure by business sector

The following tables present the exposure by industry based on the classification code “NACE Code 2.0”.

The lower-risk business sector groups (Financial and insurance activities) account for a share of 14% at YE19 (YE18: 14,1%). The well-diversified private customers sector accounts for a share of 32.5% (YE18: 31.9%).

The following table shows the exposure by business sector and ECL as at 31 December 2019:

in HRK million

Business sector	Exposure PE	ECL Stage 1&2	Exposure NPE	ECL Stage 3	Total Exposure	Total ECL
Private	6,110.3	71.9	359.9	261.7	6,470.2	333.6
Financial and insurance activities	2,731.5	3.7	53.2	29.4	2,784.7	33.1
Activities of extraterritorial organisations and bodies	1,876.6	1.4	-	-	1,876.6	1.4
Public administration and defence; compulsory social security	2,077.0	0.4	-	-	2,077.1	0.4
Wholesale and retail trade; repair of motor vehicles and motorcycles	1,625.7	11.2	98.0	61.8	1,723.7	73.0
Manufacturing	1,548.5	9.2	142.8	128.1	1,691.3	137.4
Construction	811.1	5.6	58.9	35.8	870.0	41.4
Accommodation and food service activities	443.1	3.2	26.4	11.9	469.4	15.1
Agriculture, forestry and fishing	279.7	2.5	36.8	22.8	316.5	25.2
Professional, scientific and technical activities	293.5	2.4	19.6	17.5	313.1	19.9
Education	247.2	0.9	0.5	0.4	247.7	1.3
Transporting and storage	234.6	1.8	29.2	21.3	263.8	23.1
Electricity, gas, steam and air conditioning supply	241.2	1.4	-	-	241.2	1.4
Information and communication	170.8	0.6	0.5	0.3	171.2	0.9
Water supply; sewerage; waste management and remediation activities	94.4	2.1	4.9	1.2	99.4	3.3
Administrative and support service activities	61.4	0.3	8.2	7.8	69.6	8.0
Real estate activities	99.5	1.4	7.5	1.8	107.0	3.2
Human health and social work activities	44.4	0.2	5.4	3.8	49.8	4.1
Arts, entertainment and recreation	20.2	0.1	-	-	20.3	0.1
Other services activities	20.4	0.1	0.8	0.8	21.2	0.9
Mining and quarrying	1.2	-	1.1	0.8	2.3	0.8
Total	**19,032.4**	**120.5**	**853.7**	**607.2**	**19,886.1**	**727.7**

41. RISK MANAGEMENT (CONTINUED)

The following table shows the exposure by business sector and ECL as at 31 December 2018:

in HRK million

Business sector	Exposure PE	ECL Stage 1&2	Exposure NPE	ECL Stage 3	Total Exposure	Total ECL
Private	6,095.3	58.4	567.1	439.0	6,662.4	497.5
Financial and insurance activities	2,934.5	2.6	0.2	-	2,934.7	2.7
Activities of extraterritorial organizations and bodies	2,269.6	6.5	-	-	2,269.6	6.5
Public administration and defence; compulsory social security	2,199.9	1.0	-	-	2,199.9	1.0
Wholesale and retail trade; repair of motor vehicles and motorcycles	1,594.6	12.9	397.5	300.9	1,992.1	313.9
Manufacturing	1,477.1	13.3	117.9	95.1	1,595.0	108.4
Construction	769.5	6.1	99.7	63.2	869.2	69.3
Accommodation and food service activities	408.6	5.3	30.2	14.1	438.8	19.4
Agriculture, forestry and fishing	262.5	7.1	62.5	42.2	325.0	49.3
Professional, scientific and technical activities	277.9	2.8	23.1	20.1	301.0	22.9
Education	291.2	0.9	1.0	0.6	292.2	1.4
Transporting and storage	264.5	1.7	21.9	14.4	286.4	16.1
Electricity, gas, steam and air conditioning supply	240.2	2.7	-	-	240.2	2.7
Information and communication	133.7	0.6	0.7	0.5	134.4	1.1
Water supply; sewerage; waste management and remediation activities	89.0	3.5	5.4	1.0	94.4	4.5
Administrative and support service activities	41.7	0.4	46.6	43.9	88.3	44.3
Real estate activities	60.3	1.4	11.7	3.0	71.9	4.4
Human health and social work activities	40.6	0.1	6.5	4.2	47.1	4.4
Arts, entertainment and recreation	34.2	0.2	0.1	0.1	34.4	0.3
Other services activities	10.6	0.1	1.8	1.6	12.4	1.6
Mining and quarrying	0.7	-	1.1	0.6	1.8	0.6
Total	**19,496.3**	**127.8**	**1,394.9**	**1,044.4**	**20,891.1**	**1,172.2**

41. RISK MANAGEMENT (CONTINUED)

41.5. Collateral distribution

Bank's exposure to credit risk comes out of loan activity, investments and cases where the Banks acts as an arbiter on behalf of clients or third persons. The risk that counterparty will not fulfil his/her obligations from financial instruments is continuously monitored on monthly basis.

The Bank exposure to credit risk arises from loans and advances to customers and banks, the amount of credit exposure in this regard, is the book value of these assets entered in the statement of financial position. Furthermore, the Bank is exposed to credit risk for off-balance sheet items, through commitments from unused credit frames and issued guarantees. More precisely, the credit risk exposure comprises the gross carrying amount (or nominal value in the case of off-balance-sheet exposures) without taking into account expected credit losses, provisions for guarantees, any collateral held, netting effects, other credit enhancements or credit risk mitigating transactions. Market values are used to calculate the relevant exposure for securities, whereas amortised cost is used for loans.

Collateral types and collateral amounts depend on the client credit risk assessment, and their acceptability and evaluation are regulated by internal act Collateral Management Policy.

The Bank is monitoring market values of accepted collaterals on an ongoing basis and requests additional collaterals if necessary and stipulated by the contract.

In the case when the counterparty is not able to pay the outstanding amounts due, the Bank can sell received collaterals (and does not use them for conducting its regular business) in order to close its receivables.

Analysis of type of collaterals and credit risk exposures secured with those collaterals are presented in the following tables. Amounts of collaterals are presented at the internally accepted value, more conservative than the estimated value. Haircuts which are applied are measured individually on a case-by-case basis, depending on the determined usability and based on a variety of factors such as market liquidity, location, utilisation period and legal situation in relation to the real estate.

The Bank prescribed in internal documents the methods of treatment taking into account all security instruments that are relevant in terms of credit risk in the Bank in accordance with the regulatory requirements regarding security, which are relevant to the Bank.

Guarantees are represented by government guarantees, provinces, local authority's and banking guarantees.

Types of collaterals and internal collateral values (ICV) at 31 December 2019 and 31 December 2018 considered in the analysis above were as follows:

in HRK million

Collateral Distribution	31.12.2019	31.12.2018
Exposure	19,886.1	20,891.1
Internal Collateral Value (ICV)	4,158.1	4,510.7
thereof CRE	1,467.4	1,499.7
thereof RRE	2,241.8	2,551.6
thereof financial collateral	98.4	154.9
thereof guarantees	85.4	67.2
thereof other	265.0	237.4
ICV coverage rate	**20.9%**	**21.6%**

41. RISK MANAGEMENT (CONTINUED)

Management of all collaterals is determined in the “Collateral Management Policy”. Pursuant to the Collateral Management Policy and also Real Estate Valuation Standard, all the real estate has to be regularly monitored and its value regularly re-assessed. Revaluation is being done annually for all commercial real estate, and at least once in three years for residential real estate. The valuation of all commercial real estate is performed on an individual level if the market value is above EUR 1.0 million, pursuant to the Addiko Group Real Estate Valuation Standard.

The predominant part of the reflected stated collaterals is provided for loans and advances (negligible collaterals within other financial instruments).

With the decrease of gross exposure also internal collateral value decreased. Primarily residential real estate’s given as collaterals for Retail loans were reduced, due to decrease of mortgage loan portfolio in Retail (prime focus on consumer loans). Collateral coverage did decrease, but no significant decrease change happened. The Bank did not significantly change its policies in 2019 related to collateral coverage required, except for minor updates due to alignment with changed market conditions, nor has changed criteria used for internal collateral value measurement in 2019.

41.6. Development of risk provisions

Provisions are calculated fully in line with the international accounting standard for financial instruments (IFRS 9). The model used to determine impairment losses changed from a historically oriented model under IAS 39 (incurred losses) to a future oriented model under IFRS 9 (expected losses). Different approaches are applied, depending on the stage a transaction is allocated to. Stage 1 requires the recognition of twelvemonth expected credit losses. If there is a significant increase in credit risk, the loss allowance must be increased up to the amount of the expected lifetime loss (Stage 2). In case of an objective indication of an impairment (NPE, Stage 3) the lifetime expected credit loss is recognised.

IFRS 9 requires a bank to determine an expected credit loss (ECL) amount on a probability weighted basis as the difference between the cash flows that are due to the bank in accordance with the contractual terms of a financial instrument and the cash flows that the bank expects to receive. Although IFRS 9 establishes this objective, it generally does not prescribe detailed methods or techniques for achieving it.

In determining the cash flows that the bank expects to receive, following the recommendation of the GPPC (Global Public Policy Committee), the Bank is using a sum of marginal losses approach whereby ECLs are calculated as the sum of the marginal losses occurring in each time period from the reporting date. The marginal losses are derived from individual parameters that estimate exposures and losses in the case of default and the conditional probability of default for each period (the probability of a default in time period X conditional upon an exposure having survived to time period X).

In general, fully statistical models are applied to determine the parameters used wherever possible and plausible. These models rely on internal historical and / or external market available data. Methodologies are based on internal already available credit risk models while being adapted to be fully IFRS 9 compliant.

41. RISK MANAGEMENT (CONTINUED)

The (lifetime) ECL is calculated for different scenarios separately, considering current and future forward looking information. The aggregation to the final ECL is performed at the end by probability weighting of the different individual macro scenarios. The Bank calculates in total three outcomes: base case, optimistic case and pessimistic case, while occasionally also some more adverse scenarios are simulated to understand dynamics and potential portfolio risks.

As for the non-performing part (Stage 3) two approaches are of relevance, namely collective assessment based on risk parameters for small exposures and individual assessment with expert based cash flow estimation for larger exposures.

Collective assessment is done based on estimation/projection of main recovery parameters for groups of portfolios (exposures showing similar characteristics related to credit risk profile and recovery potential).

Individual assessment or calculation of specific risk provisions based on individual assessment of impairment losses considers that the underlying credit exposure is subject to an individual analysis in accordance with regulations regarding the calculation of provisions for impairment losses. In this calculation, repayments from a company's operating business (primary cash flows) and from the utilisation of collaterals and non-core assets (secondary cash flows) are taken into consideration. Depending on the assumed default scenario (restructuring or utilisation), expected repayments are assessed individually in terms of amount and time, the underlying assumptions are documented and justified on a case-by-case basis and expected cash flows are discounted to the net present value and offset against the outstanding current exposure. In terms of the calculation of recovery cash flows from real estate, the Bank bases its assumptions on the collateral's market value. Haircuts are measured individually on a case-by-case basis, depending on the determined usability and based on a variety of factors such as market liquidity, location, utilisation period and legal situation in relation to the real estate.

For the part of the non-performing portfolio where the exposure at default (EAD) on group of borrower's levels is below a EUR 130 thousand, the calculation of provisions for impairment losses is performed as a collective assessment (rule-based approach). The provision amount is calculated as product of EAD and loss given default (LGD), where LGD is based on relevant characteristics such as time in default, risk segment and product.

Daily portfolio monitoring supported by clear performance goals regarding early collections, together with an incentive program leads to considerable improvements in the overall collections result and a significant reduction of the NPE portfolio. The NPE ratio (gross exposure based) decreased from 6,7% (YE18) to 4,3% (YE19). The positive, decreasing trend in terms of the NPE ratio was continuous throughout 2019 in all segments. Most significant part is coming from secured debt sale transaction in retail segment which was executed during December 2019. Additionally, constant focus on both, early collection and existing NPL collection / recovery, are strongly influencing positive NPE portfolio development through 2019. These activities also resulted with restructuring of larger retailer exposure in HY 2019 with positive impact on NPE portfolio and provisioning stock.

Risk costs for 2019 ended up in amount of HRK 28.4m (local GAAP), and with inclusion of off-balance sheet items, total YTD risk costs amounts HRK 25.4 million. Favourable movements of performing portfolio resulted in positive movements of risk costs for this portfolio, while low NPL inflow, significant repayments (including mentioned secured debt sale transaction), and recovery also led to positive movements of risk costs within defaulted portfolio.

41. RISK MANAGEMENT (CONTINUED)

A further decrease in NPEs is expected for 2020, although as the stock is shrinking the rate of decrease is expected to slow down.

Based on the ongoing model improvement framework at Addiko, updates are performed regularly to make sure that the latest available information and internal data is considered. In 2019 time series prolongation for all models was performed, incorporating most up-to-date data into statistical calculations. The changes were reflected in improvement model quality particularly reflected in migration stability as well as in improved performance. In addition, macro models were adapted in line with validation findings and new macroeconomic forecasts were used to reflect the latest available economic outlooks throughout all segments.

The following table shows the NPE and coverage ratio (coverage ratio 1 considers Stage 3 risk provision stocks, while coverage ratio 2 additionally considers collaterals) according to the internal segmentation as of 31 December 2019:

in HRK million

31.12.2019	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	Coverage Ratio 1	Coverage Ratio 2
Mortgage	2,862.8	264.7	183.8	173.3	9.2%	69.4%	134.9%
Consumer	3,545.5	94.9	77.6	19.3	2.7%	81.8%	102.1%
SME Business	4,649.6	389.3	279.7	166.4	8.4%	71.8%	114.6%
Large Corporate	1,602.9	101.9	64.6	42.1	6.4%	63.5%	104.7%
Public Finance	472.2	2.9	1.4	2.3	0.6%	48.4%	127.1%
Treasury	6,753.0	-	-	-	0.0%	0.0%	0.0%
Total	**19,886.1**	**853.7**	**607.2**	**403.3**	**4.3%**	**71.1%**	**118.4%**

The following table shows NPE and coverage ratio according to the internal segmentation valid as of 31 December 2018:

in HRK million

31.12.2018	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	Coverage Ratio 1	Coverage Ratio 2
Mortgage	3,447.7	437.8	326.4	231.2	12.7%	74.5%	127.3%
Consumer	3,153.4	128.8	112.3	18.7	4.1%	87.2%	101.7%
SME Business	4,140.9	428.8	280.4	224.2	10.4%	65.4%	117.7%
Large Corporate	2,248.3	396.0	323.8	55.7	17.6%	81.8%	95.8%
Public Finance	585.7	3.4	1.6	1.0	0.6%	48.2%	78.3%
Treasury	7,315.1	-	-	-	0.0%	0.0%	0.0%
Total	**20,891.1**	**1,394.9**	**1,044.4**	**530.8**	**6.7%**	**74.9%**	**112.9%**

The decrease in coverage ratio predominantly results from restructuring of larger retailer exposure in Corporate Large segment where highly provisioned portfolio was excluded from NPE. For the Retail segment slight decrease is mostly influenced by debt sale transactions where older and highly provisioned portfolio was sold. However, coverage ratios are still on high levels ensuring strong coverage levels for all portfolios which are in line with market benchmarks.

41. RISK MANAGEMENT (CONTINUED)

41.6.1. Breakdown of financial assets by degree of impairment

Financial assets that are neither overdue nor impaired:

in HRK million

	31.12.2019		31.12.2018	
Rating class	Exposure	Collateral	Exposure	Collateral
1A-1E	4,453.5	1,016.2	4,879.0	1,169.9
2A-2E	12,238.1	2,033.3	11,906.5	2,009.7
3A-3E	1,459.4	382.6	1,808.2	450.9
Watch	380.4	128.1	565.7	217.9
No rating	3.8	0.2	7.3	0.0
Total	**18,535.2**	**3,560.5**	**19,166.7**	**3,848.4**

Overdue but not impaired financial assets:

in HRK million

	31.12.2019		31.12.2018	
	Exposure	Collateral	Exposure	Collateral
– overdue to 30 days	476.6	187.4	285.2	108.1
– overdue 31 to 60 days	15.3	5.6	31.4	17.4
– overdue 61 to 90 days	5.3	1.3	13.0	6.0
– overdue 91 to 180 days	-	-	-	-
– overdue 181 to 365 days	-	-	-	-
– overdue over 1 year	-	-	-	-
Total	**497.2**	**194.3**	**329.5**	**131.5**

Impaired financial assets:

in HRK million

NPE	31.12.2019	31.12.2018
Exposure	853.7	1,394.9
Provisions	607.2	1,044.4
Collateral	403.3	530.8

All financial assets to which one or several of those events apply (positive impairment trigger) are to be tested for potential need of applied provisioning methodology. Consequently, an impairment calculation is performed. Receivables with rating category 4A or worse (watch list) are regularly tested for potential impairment triggers within the monitoring and pre-workout process.

The over-collateralisation (collaterals plus provisions) of the impaired financial assets shown in the table above is mostly driven by the Stage 3 collective impaired calculation, in which no collateral values are recognised.

41. RISK MANAGEMENT (CONTINUED)

41.7. Presentation of exposure by overdue days

Analysis of credit portfolio quality is performed through regular reporting (daily/monthly) on the structure of the total exposure according to the different exposure categories (products, segments). In the following tables portfolio structure with classification of placements into risk categories is presented in a manner to show:

- amount of undue exposure in total exposure,
- amount of due exposure in total exposure divided in buckets of days in delay (less than 30 days, 31 to 60 days, 61 to 90 days, more than 91 days).

Bank's local processes and internal acts related to the calculation of days past due and implementation of default definition are in line with EBA regulatory requirements and CNB requirements.

Also, in order to enable effective credit portfolio management and to provide adequate information required for efficient decision making, the Bank has implemented certain procedures and activities focused on:

- collection of due receivables in accordance with the Bank's internal acts and
- timely and adequate monitoring of due exposure in order to make appropriate value adjustment.

Main movements for 2019 in credit risk exposure and credit risk quality of the Bank's portfolio are influenced by regular and irregular repayments in Corporate segment (working capital loans, investment loans, loans from CBRD funds) and Retail segment (housing loans), and an increase of new volumes for Small and Medium Corporate loans and non – purpose loans in Retail segment in the same period.

Also, decrease of impaired asset (NPE portfolio) in Retail segment is influenced by portfolio sales of secured loans (housing loans) and unsecured portfolio. Combined with strong collection and rehabilitation activities in all segments, this was the main driver for continuous decrease of non-performing exposure.

Movements per segment and days of delay, divided to time buckets are showed in following tables.

Credit quality at 31 December 2019 was as follows:

in HRK million

31.12.2019	No Overdue	– overdue to 30 days	– overdue 31 to 60 days	– overdue 61 to 90 days	– overdue more than 90 days	Total
Mortgage	2,574.4	59.4	9.3	5.6	214.1	2,862.8
Consumer	3,410.7	52.1	9.3	3.9	69.5	3,545.5
SME Business	4,136.1	187.7	16.3	-	309.4	4,649.6
Large Corporate	1,328.0	187.9	-	-	87.0	1,602.9
Public Finance	469.7	-	-	-	2.5	472.2
Treasury	6,753.0	-	-	-	-	6,753.0
Total	**18,672.0**	**487.2**	**34.9**	**9.5**	**682.6**	**19,886.1**

41. RISK MANAGEMENT (CONTINUED)

Credit quality at 31 December 2018 was as follows:

in HRK million

31.12.2018	No Overdue	– overdue to 30 days	– overdue 31 to 60 days	– overdue 61 to 90 days	– overdue more than 90 days	Total
Mortgage	2,952.8	85.7	28.2	9.4	371.7	3,447.7
Consumer	2,959.2	69.0	11.8	6.8	106.6	3,153.4
SME Business	3,691.9	138.2	0.4	11.2	299.2	4,140.9
Large Corporate	1,875.0	14.9	-	-	358.4	2,248.3
Public Finance	582.8	-	-	-	2.9	585.7
Treasury	7,315.1	-	-	-	-	7,315.1
Total	**19,376.8**	**307.8**	**40.4**	**27.3**	**1,138.7**	**20,891.1**

41.8. Market risk

Market risk arises from open positions in market instruments that are linked to interest rates, different underlying currencies, and equities, all of which are exposed to general and specific market movements. The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions, and through establishing and maintaining appropriate limits.

All trading instruments are subject to market risk, the risk that future changes in the market conditions may make an instrument less valuable or more onerous. The instruments are recognized at fair value, and all changes in the market conditions directly affect net trading income. The Bank manages its use of trading instruments in response to changing market conditions. Exposure to market risk is formally managed by buying or selling instruments and hedging positions in accordance with risk limits approved by the Management Board.

41.8.1. Value at Risk (VaR) analysis

The VaR risk measure estimates the potential loss over the given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Bank reflects the 99% probability that the daily loss should not exceed the reported VaR.

VaR methodology employed to calculate daily risk numbers is a Monte Carlo simulation used in order to determine potential future exposure to risk. The Bank uses VaR to capture: exposure to Bank Book (99% confidence; 1 day holding horizon), exposure to Trading Book (99% confidence; 1 day horizon) and portfolios and exposure to daily open FX position of the Bank. Methodology used is a structured Monte Carlo simulation with 10,000 runs and a 99% confidence interval based on exponentially weighted volatilities and correlations of the Bank´s own time series (250 days).

41. RISK MANAGEMENT (CONTINUED)

Under the internal model, the variance-covariance method is used for the calculation of VaR for interest rate risk measurement in the Bank Book. The approach is based on the assumption that daily changes of interest rates fall within normal distribution. The risk vector is given by the position volatility and a normal distribution factor. The value of estimated loss or VaR for the overall portfolio is given by the multiplication of correlation matrix and inverse risk vector.

As Euro is the base currency for all calculations, the Monte Carlo-based VaR calculation is modeled and reported via Addiko Group internal application Portfolio Management System ("PMS") that covers Addiko Group's exposure and monitors risk from the Addiko Group perspective.

The following table presents VaR trends of specific risk factors during the year 2019:

Value at Risk	HRK Million	HRK Million	HRK Million	HRK Million
Risk category	Minimum	Maximum	Average	End of year
Interest rate risk – trading book	0.1	0.3	0.2	0.2
Interest rate risk – banking book	2.8	5.2	3.9	3.9
Credit spread risk	1.3	4.5	2.6	4.5
Currency risk	0.0	0.3	0.2	0.1
Total*	**4.2**	**10.4**	**6.9**	**8.7**

** Correlation effects are not considered in the above analysis.*

The following table presents VaR trends of specific risk factors during the year 2018:

Value at Risk	HRK Million	HRK Million	HRK Million	HRK Million
Risk category	Minimum	Maximum	Average	End of year
Interest rate risk – trading book	0.1	0.2	0.1	0.2
Interest rate risk – banking book	1.7	4.9	2.9	2.1
Credit spread risk	1.8	4.0	2.4	1.8
Currency risk	0.0	0.6	0.3	0.0
Total*	**3.6**	**9.8**	**5.8**	**4.1**

** Correlation effects are not considered in the above analysis.*

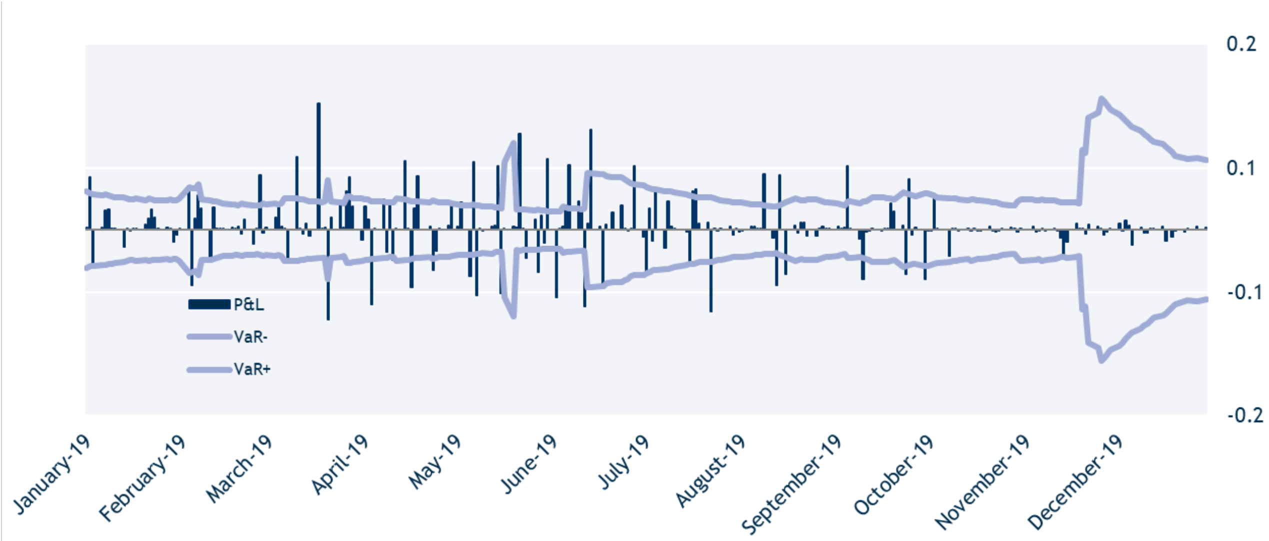
Comparing end of year figures, increase of total risk amount in 2019 is mainly result of higher credit spread risk due to higher volatility of CDS/probability of default of Croatia government bonds and similar emerging markets' issuers. Increase in total market risk exposure was also driven by rise in interest rate risk in bank book due to change of structure of interest rate gaps and higher interest rate volatility. Furthermore, total market risk exposure was on average higher in 2019 against the year before primarily due to higher interest rate risk in bank book, and higher exposure to credit spread risk for securities portfolio likewise played a role in the same way.

41.8.2. Back testing

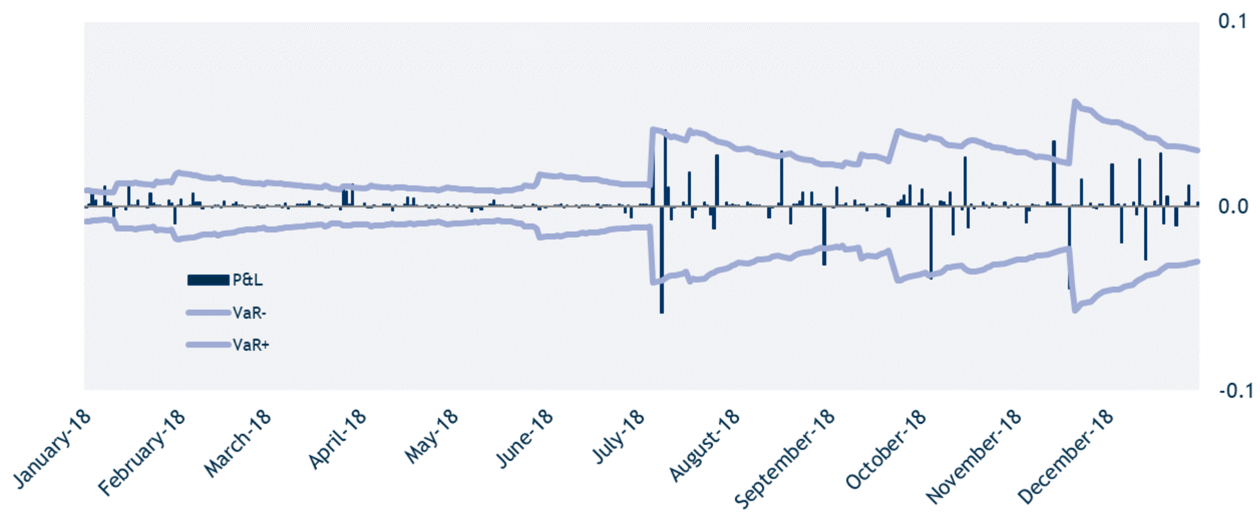
Back testing is an evaluation process of VaR model by applying the model calculations on realized historical performance. The Bank thus determines the deviation magnitude of realized performance against the results assumed by the VaR model. Back testing is based on Trading Book dataset in order to determine predictive power of VaR model. Back testing is performed on a yearly frequency, retrospectively for the previous year.

41. RISK MANAGEMENT (CONTINUED)

The following graph shows back testing of VaR model in relation to daily changes of profit or loss in trading book for 2019, in EUR million:



The following graph shows back testing of VaR model in relation to daily changes of profit or loss in trading book for 2018, in EUR million:



41. RISK MANAGEMENT (CONTINUED)

Back testing results of VaR model shows that during 2019 loss performance has exceeded VaR figures in 19 cases. The number of exceeds of VaR figures counts for 7% share of total observations in 2019. The portfolio is accounted only for items that were held for a short period, which also shape only small share in the overall balance sheet, hence limiting potential losses therein.

41.8.3. Foreign currency risk

The Bank is exposed to changes of foreign exchange rates which influence its financial position and cash flows. Foreign currency risk exposures emerge out of credit, deposit and investment activities as well as out of trading activities. Foreign currency risk is controlled daily under the given limits for specific currencies and total off-balance sheet positions denominated in foreign currencies or linked to foreign currencies.

The Bank’s Management Board establishes exposure limits at the overall level as well as per particular currency. The given internal limits represent the Bank’s appetite for foreign currency risk exposure. In 2019, the Bank has continued with conservative strategy towards foreign currency risk exposure limited at EUR 0.2 million (equivalent to HRK 1.8 million) via internal Monte Carlo-based VaR calculation, whereas average total open FX position volume was 41% higher compared to 2018.

The following graph shows comparison in movements of open foreign currency position related to regulatory capital for the year 2019 and 2018:

The Bank is mainly exposed to the Euro (EUR). The following table details the Bank's sensitivity to a 10% depreciation of the domestic currency (HRK) against the relevant foreign currencies.

41. RISK MANAGEMENT (CONTINUED)

The following table presents the open FX position from internal management with the anticipated net profit or loss effect as of 31 December 2019:

in HRK million

	EUR	CAD	NOK	AUD	Other
Open FX position	(73.9)	1.4	1.0	0.9	1.7
Net profit or loss effect	(7.4)	0.1	0.1	0.1	0.2

The following table presents the open FX position from internal management with the anticipated net profit or loss effect as at 31 December 2018:

in HRK million

	EUR	GBP	NOK	CHF	Other
Open FX position	12.4	(1.6)	0.8	0.7	1.5
Net profit or loss effect	1.2	(0.2)	0.1	0.1	0.2

All limits for open FX position were respected thorough whole 2019. Monthly average total open FX position volume was in range from around EUR 0.9 million to EUR 32.8 million, with EUR position consuming almost full size of total open FX position. With the EUR as the biggest part of total open FX position, FX risk measured by VaR remained at low levels, shaping limit utilization in sub-20% area.

The sensitivity analysis includes all foreign currency denominated items and adjustments of foreign currency openness at the year-end. The amount of adjustment is based at 10% change in foreign currency rates against the local currency HRK.

A positive number indicates an increase in profit in case of the HRK 10% depreciation against the relevant currency. In case of HRK 10% appreciation against the relevant currency, there would be an equal impact but with an opposite sign.

41.8.4. Interest rate risk

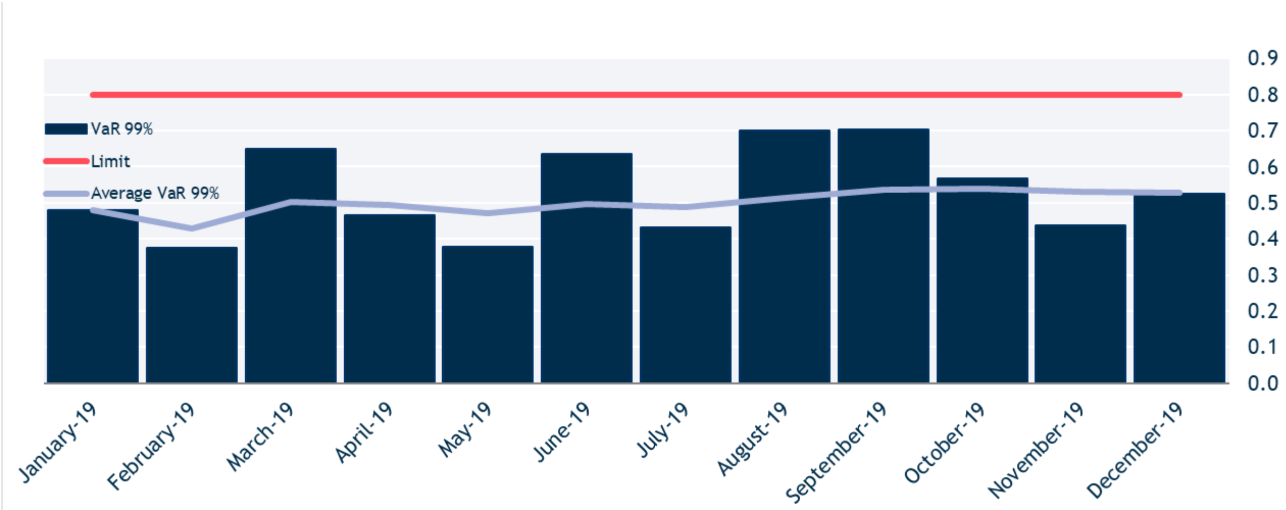
Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. Management of the interest rate risk is performed through the Interest rate risk in bank book report with the inclusion of utilization of internally accepted limits, and based on this report, interest rate position steering within limits is performed through local and group Asset Liability Committees. Due receivables are taken into account under the following conditions: receivables that are due and not impaired are mapped as interest non-sensitive item. Furthermore, receivables which are impaired due to credit risk criteria are reduced for the portion of impairment through the whole payment period as to display only the interest sensitive part of each receivable.

The Bank’s interest rate risk in the Bank Book changed between EUR 0.4 million and EUR 0.7 million during 2019. As also in 2018, new loan placements with fixed interest rate are a key feature in the change of balance sheet structure compared to years before, and this in line with the Bank’s business strategy. In this connection, the Bank’s funding structure still prevents a material increase in interest rate risk, and this amid reduction in share of term deposits alongside an increase in share of received funding with until further notice interest rate type. The Bank’s interest rate risk management was also influenced by full compliance with the EBA guidelines for interest rate risk in the Bank Book management.

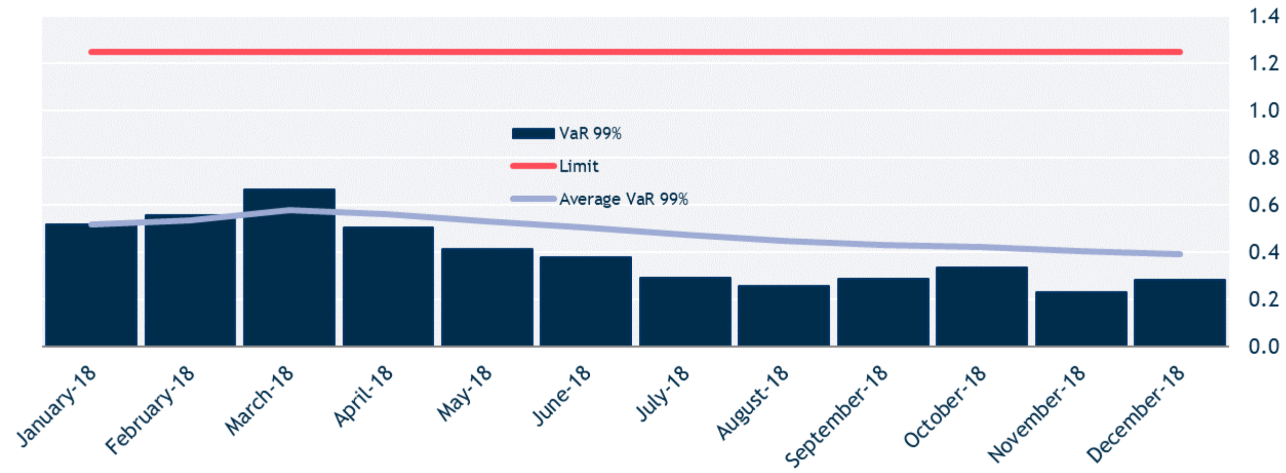
41. RISK MANAGEMENT (CONTINUED)

Internal VaR limit for interest rate risk in the Bank Book was maintained at EUR 0.8 million during 2019 or HRK 6.0 million.

VaR limit monitoring and average usage of given limits for interest rate risk for 2019 is shown in the graph below, in EUR million:



VaR limit monitoring and average usage of given limits for interest rate risk for 2018 is shown in the graph below, in EUR million:



Increase in interest rate volatility was the key reason for a higher interest rate risk measured by VaR model compared to 2018.

41. RISK MANAGEMENT (CONTINUED)

Interest GAP Balance for on-balance sheet positions as at 31 December 2019 is as follows:

in HRK million

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	No Effect*	Total
Assets	185.9	519.4	992.0	5,700.7	1,946.2	1,736.5	4,363.0	2.525,6	17,969.3
Liabilities	(5,076.9)	(577.0)	(689.6)	(3,089.6)	(984.9)	(693.6)	(2,849.2)	(4.008,5)	(17,969.3)
Interest GAP	**(4,891.0)**	**(57.6)**	**302.4**	**2,611.0**	**961.3**	**1,042.8**	**1,513.9**	**(1.482,9)**	-
Interest GAP (%)	**(27.2%)**	**(0.3%)**	**1.7%**	**14.5%**	**5.4%**	**5.8%**	**8.4%**	**(8.3%)**	**-**

** "No Effect" position represents Share capital on Liability side and Tangible and intangible assets on Asset side.*

Interest GAP Balance for on-balance sheet positions as at 31 December 2018 is as follows:

in HRK million

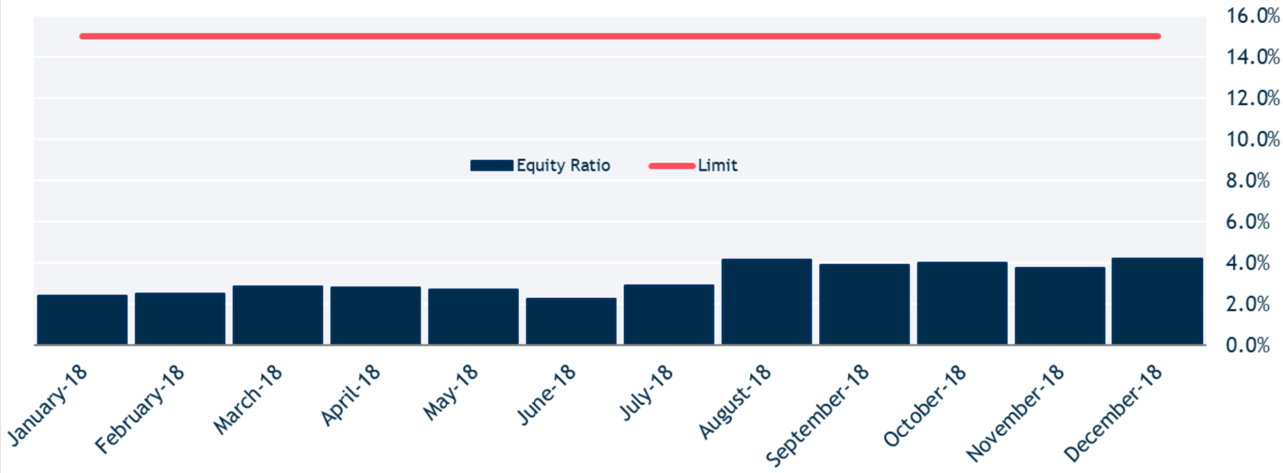
	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	No Effect*	Total
Assets	204.2	619.9	1,070.5	6,141.5	1,410.1	1,732.4	4,414.0	2,787.8	18,380.4
Liabilities	(4,463.4)	(876.6)	(1,114.7)	(3,722.2)	(1,199.8)	(680.4)	(2,893.7)	(3,429.6)	(18,380.4)
Interest GAP	**(4,259.2)**	**(256.7)**	**(44.2)**	**2,419.3**	**210.4**	**1,051.9**	**1,520.4**	**(641.8)**	-
Interest GAP (%)	**(23.2%)**	**(1.4%)**	**(0.2%)**	**13.2%**	**1.1%**	**5.7%**	**8.3%**	**(3.5%)**	**-**

** "No Effect" position represents Share capital on Liability side and Tangible and intangible assets on Asset side.*

As shown on the chart for 2019, interest rate risk in the Bank Book was largely stable. The EUR, CHF and USD components were major risk contributors throughout 2019. Monitoring of Equity ratio, which represents interest rate risk calculated as 200 BP interest rate shock in relation with regulatory capital, as well as monitoring of internally given limit of 15% of regulatory capital for 2019 are shown on the graph as follows:

41. RISK MANAGEMENT (CONTINUED)

Monitoring of Equity ratio which represents interest rate risk calculated as 200 BP interest rate shock in relation with regulatory capital, as well as monitoring of internally given limit of 15% of regulatory capital for 2018 is shown on the graph as follows:



The sensitivity analysis below is based on the exposure to interest rates for both derivatives and non-derivative instruments at the financial reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of liability presented at the financial reporting date was constant for the entire year.

A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management and when it represents the Management Board's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the impact on Bank's statement of profit or loss would be as presented in the following tables.

Interest GAP sensitivity as at 31 December 2019:

in HRK million

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	No Effect	Total
Interest GAP	**(4,891.0)**	**(57.6)**	**302.4**	**2,611.0**	**961.3**	**1,042.8**	**1,513.9**	**(1,482.9)**	**-**
50 BP parallel shift	0.0%	0.0%	0.1%	0.3%	0.7%	1.1%	3.6%	0.0%	
P/L effect	**0.0**	**(0.0)**	**0.2**	**8.1**	**6.6**	**11.8**	**54.2**	**0.0**	**80.9**

Interest GAP sensitivity as at 31 December 2018:

in HRK million

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	No Effect	Total
Interest GAP	**(4,259.2)**	**(256.7)**	**(44.2)**	**2,419.3**	**210.4**	**1,051.9**	**1,520.4**	**(641.8)**	**-**
50 BP parallel shift	0.0%	0.0%	0.1%	0.3%	0.7%	1.1%	3.6%	0.0%	-
P/L effect	**0.0**	**(0.1)**	**(0.0)**	**7.5**	**1.5**	**11.9**	**54.4**	**0.0**	**75.2**

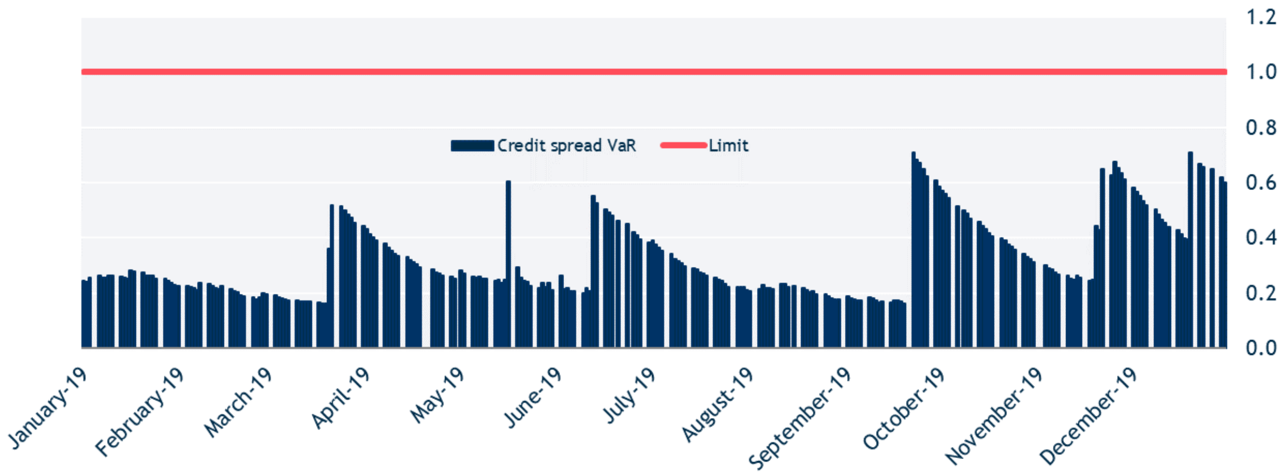
Sensitivity analysis is based on the principle described in Basel Committee on Banking Supervision "***Principles for the Management and Supervision of Interest Rate Risk***", July 2004, Annex 3 - The standardized interest rate shock.

41. RISK MANAGEMENT (CONTINUED)

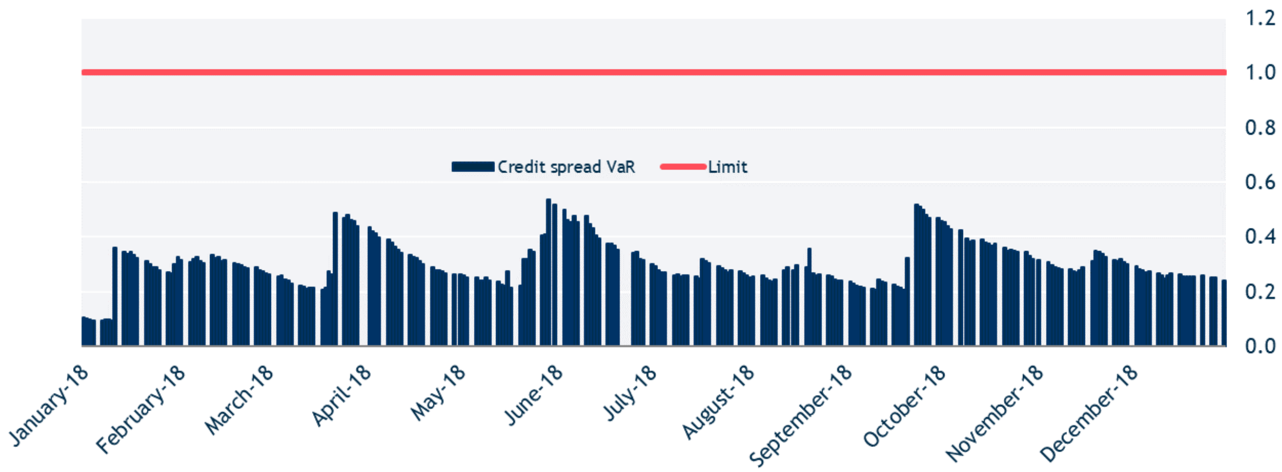
41.8.5. Credit spread risk

Credit spread risk represents the risk of debt instrument price change that comes out from a shift in expected client creditworthiness, which is usually reported through CDS curve. Along with the interest rate risk, credit spread risk represents a major risk factor within the market risks. Credit spread margin is a constitutional part of each market price of debt security and it is determined on a daily basis. VaR is used as a measure of credit spread risk, having estimated the maximum potential loss of the portfolio over a given period (usually 1 day), due to simulated changes in the prices of its constituent parts, i.e., debt financial instruments.

Historical trend of the Bank's exposure toward credit spread risk in EUR million, together with the given VaR limit for credit spread risk for 2019 is shown on the graph below:



Historical trend of Bank exposure toward credit spread risk in EUR million, together with given VaR limit for credit spread risk for 2018 is shown on the graph below:



41. RISK MANAGEMENT (CONTINUED)

Credit spread risk management is carried out through daily VaR reports, within which the monitoring of internally accepted limits is conducted. On the basis of that report, Management and the relevant sectors have information on the amount of risk taken and whether the bank is or it is not positioned within the defined/acceptable limits.

41.9. Liquidity risk

Liquidity risk is a measure of the extent up to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. Bank is obliged to continuously insure sufficient amount of liquid assets in order to cover all demands that arise from maturity of their obligations.

The Bank has a clearly defined tolerance towards the liquidity risk exposure, which is determined in accordance with adopted strategy and business plans. In order to meet all regulatory requirements and to achieve and respect security principles as well as to maintain stability and achievement of planned profitability, systematic measurement, limitation and reporting of liquidity risk is applied within the Bank. The Bank maintains its liquidity in compliance with the regulations set by the CNB.

The Bank has maintained a strong liquidity position during 2019 given mostly the influence of robust liquidity reserve and stable funding base. As another one of key regulatory requirements, the Bank manages liquidity position via liquidity coverage ratio, which the regulator defines as the ratio of a credit institution's liquidity buffer to its net liquidity outflows over a 30 calendar day stress period.

The following table represents levels of liquidity coverage ratio obtained by the Bank in 2019 and 2018 and calculated out of daily values:

	2019 %	2018 %
Year End	172.8	166.7
Maximum	194.9	245.7
Minimum	151.1	137.0
Average	172.4	173.4

During 2019, the Bank has maintained obligatory amount of foreign currency claims in relation to foreign currency obligations (the so-called A/L ratio) above the prescribed regulatory minimum at 17% as defined by the CNB's Decision on A/L ratio.

The following table shows the level of A/L ratio in 2019 and 2018:

	2019 %	2018 %
Year End	25.0	26.5
Maximum	30.0	38.5
Minimum	22.6	21.3
Average	25.1	30.4

The A/L ratio was maintained at around 25% during 2019 on average, which was 5pp lower level than in 2018. Such development is largely the result of foreign currency liquidity position decrease amid foreign currency obligations decrease.

41. RISK MANAGEMENT (CONTINUED)

Furthermore, the Bank has set internal limits which represent constitutional part of Liquidity Risk Policy. Ratios which the Bank uses in liquidity risk management and which represents tolerance toward liquidity risk are:

- Current liquidity ratio,
- Loans to Deposits ratio,
- Short term assets to short term Liabilities ratio (up to 1 Year).

With robust liquidity reserve position, these liquidity risk indicators have also remained at strong levels.

The following table shows the level of Liquidity ratios in 2019 and 2018:

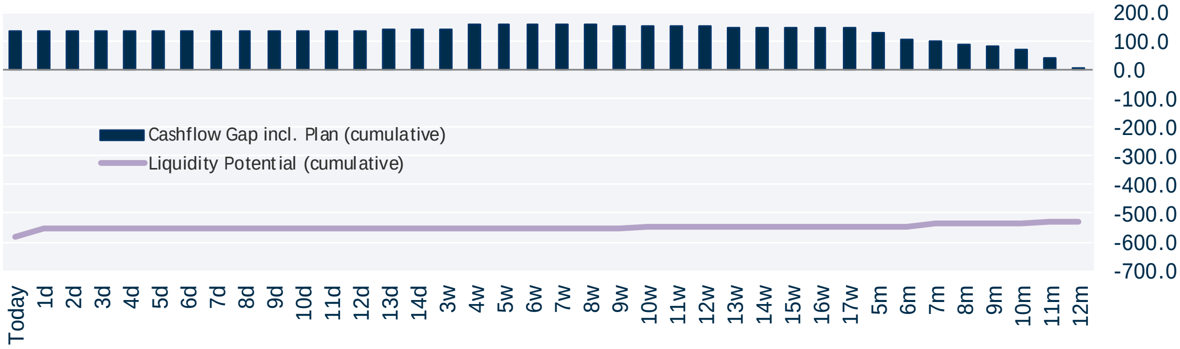
	2019 %	2018 %
Current liquidity ratio:		
Year End	33.1	35.6
Maximum	35.3	43.8
Minimum	32.8	34.5
Average	33.9	38.6
Loans to Deposits ratio:		
Year End	83.9	82.4
Maximum	86.7	83.1
Minimum	81.5	70.8
Average	84.2	77.0
Short term assets to short term Liabilities ratio:		
Year End	88.3	80.4
Maximum	93.3	102.9
Minimum	79.6	77.9
Average	86.8	88.8

Aside from the mentioned regulatory requirements, the Bank has also developed a system of liquidity risk management which ensures continuous maintenance of sufficient liquidity assets (reserve) in the form of additional, high quality, unpledged liquid instruments as insurance in case of unexpected events. A system based measurement of liquidity risk and weekly monitoring is being performed by the following measure used: the ratio of sufficient liquidity reserves versus projected net cash flows, also known as "Time to Wall" ratio. This ratio is defined for a variety of scenarios. By monitoring this ratio, liquidity risk measurement is being performed for several different predefined liquidity crises, starting from moderate to severe.

41. RISK MANAGEMENT (CONTINUED)

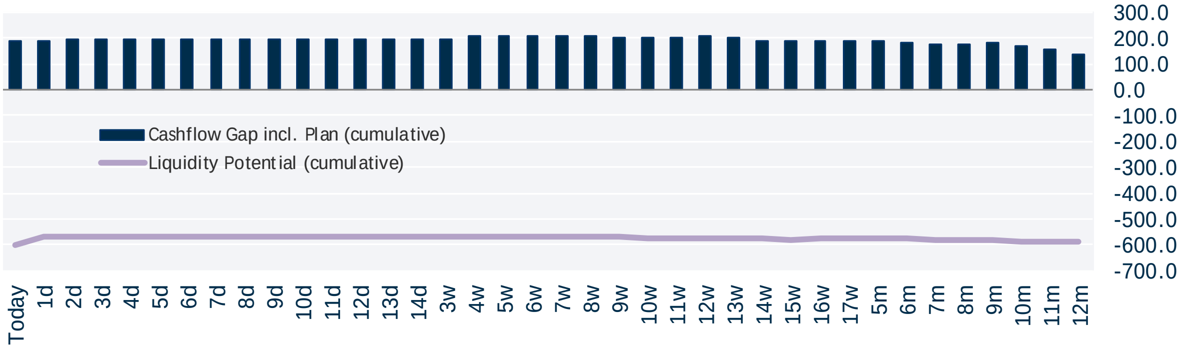
Graph below shows sufficiency of liquidity reserves in relation to net projected outflows ("Time to Wall" ratio) on 31 December 2019:

Normal Scenario		31.12.2019
Time to Wall		>12.0 m
Liquidity Position (EUR Mio) after	1 week	686.5
	1 month	710.9
	3 months	694.8
	6 months	650.9
	1 year	538.6



Graph below shows sufficiency of liquidity reserves in relation to net projected outflows ("Time to Wall" ratio) on 31 December 2018:

Normal Scenario		31.12.2018
Time to Wall		>12.0 m
Liquidity Position (EUR Mio) after	1 week	762.4
	1 month	781.6
	3 months	777.6
	6 months	756.2
	1 year	726.9



41. RISK MANAGEMENT (CONTINUED)

Aside from the above, the Bank has established a liquidity contingency plan which comprises a variety of measures and regulates procedures in case of a particular crisis. Liquidity crisis declaration criteria consist of several quantitative and qualitative ratios which are monitored and reported weekly and monthly. In case that crisis declaration criteria is fulfilled, Risk Control department is obliged to inform Management Board, ALCO and LICO, which is then in charge of further actions.

The Bank places special focus on term structure of assets and liabilities in scope of its liquidity risk management.

The following table gives an overview on original maturity divided into short-term (below 12 months) and long-term (over 12 months) buckets for Bank's financial assets and liabilities as of 31 December 2019:

in HRK million

	Maturity below 1 year	Maturity over 1 year	Total
Assets			
Cash	328.0	-	328.0
Balances with Croatian National Bank	2,364.4	-	2,364.4
Other deposits	266.8	-	266.8
Financial assets at FVTPL and FVTOCI	41.3	4,199.6	4,240.9
Loans and receivables	1,019.5	9,111.3	10,130.7
Total financial assets	**4,144.9**	**13,824.4**	**17,969.3**
Liabilities			
Received deposits	10,639.0	3,475.3	14,114.3
Received loans	13.0	344.9	357.9
Other liabilities	206.1	67.8	273.9
Total financial liabilities	**11,062.6**	**6,906.7**	**17,969.3**

The following table gives an overview on original maturity divided into short-term (below 12 months) and long-term (over 12 months) buckets for Bank's financial assets and liabilities as of 31 December 2018:

in HRK million

	Maturity below 1 year	Maturity over 1 year	Total
Assets			
Cash	349.1	-	349.1
Balances with Croatian National Bank	2,576.4	-	2,576.4
Other deposits	198.6	-	198.6
Financial assets at FVTPL and FVTOCI	52.5	4,562.4	4,614.8
Loans and receivables	940.4	9,057.0	9,997.4
Total financial assets	**4,295.0**	**14,085.4**	**18,380.4**
Liabilities			
Received deposits	9,958.5	4,845.4	14,803.9
Received loans	10.4	358.9	369.3
Other liabilities	198.0	19.6	217.6
Total financial liabilities	**10,257.9**	**8,122.5**	**18,380.4**

41. RISK MANAGEMENT (CONTINUED)

The following table details the remaining contractual maturity for Bank financial assets and liabilities as at 31 December 2019:

in HRK million

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Assets								
Cash	328.0	-	-	-	-	-	-	328.0
Balances with Croatian National Bank	-	0.4	0.2	0.6	-	0.1	2,370.0	2,371.3
Financial assets at FVTPL and FVTOCI	-	-	50.8	145.4	776.2	765.5	2,618.6	4,356.4
Placements with and loans to other banks	208.0	94.6	-	-	-	-	-	302.7
Loans and receivables	1.8	294.3	552.7	2,051.5	1,814.1	1,468.2	5,631.1	11,813.7
Other assets	0.1	17.4	1.9	6.3	4.5	1.8	322.8	354.8
Property, plant and equipment and intangible assets	-	-	-	-	-	-	264.1	264.1
Total assets	**537.9**	**406.7**	**605.6**	**2,203.9**	**2,594.8**	**2,235.5**	**11,206.6**	**19,791.0**
Liabilities								
Due to financial institutions	-	(242.2)	(50.4)	(117.1)	(1,117.0)	(44.3)	(888.6)	(2,459.6)
Deposits from customers	(9,237.5)	(191.8)	(467.4)	(1,602.7)	(410.1)	(61.5)	(48.9)	(12,019.9)
Deferred items	-	-	-	(0.1)	-	-	-	(0.1)
Provisions for liabilities and charges	(1.4)	(0.7)	(1.4)	(6.1)	(3.8)	(2.0)	(221.8)	(237.1)
Other liabilities	(0.3)	(7.6)	(7.6)	(13.8)	(17.7)	(9.3)	(272.7)	(328.9)
Equity	-	-	-	-	-	-	(3,018.7)	(3,018.7)
Total liabilities and equity	**(9,239.2)**	**(442.3)**	**(526.8)**	**(1,739.7)**	**(1,548.7)**	**(117.0)**	**(4,450.7)**	**(18,064.3)**
Gap per time band	(8,701.3)	(35.6)	78.8	464.2	1,046.1	2,118.5	6,755.9	
Gap in %	**(44.0%)**	**(0.2%)**	**0.4%**	**2.3%**	**5.3%**	**10.7%**	**34.1%**	

The table is based on undiscounted cash flows of financial instruments and reflects the numbers in the statement of financial position. Time bucketing is defined by residual maturity of each position with the inclusion of the respective interest. As at 31 December 2019 the balance of term deposits from retail customers was HRK 2,591.4 million and as at 31 December 2018 it was at HRK 3,877.5 million.

41. RISK MANAGEMENT (CONTINUED)

The following table details the remaining contractual maturity for Bank's financial assets and liabilities as at 31 December 2018:

in HRK million

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Assets								
Cash	349.1	-	-	-	-	-	-	349.1
Balances with Croatian National Bank	-	0.9	0.1	0.3	-	3.4	2,578.1	2,582.7
Financial assets at FVTPL and FVTOCI	-	-	-	224.1	544.6	855.0	3,082.0	4,705.7
Placements with and loans to other banks	199.1	66.4	-	-	-	-	-	265.5
Loans and receivables	9.5	269.4	531.2	1,854.0	1,764.7	1,399.3	6,124.7	11,952.7
Other assets	2.5	19.6	5.1	15.1	12.5	11.7	291.2	357.7
Property, plant and equipment and intangible assets	-	-	-	-	-	-	298.6	298.6
Total assets	**560.1**	**356.2**	**536.4**	**2,093.5**	**2,321.8**	**2,269.4**	**12,374.6**	**20,512.1**
Liabilities								
Due to financial institutions	-	(314.6)	(38.3)	(108.1)	(112.6)	(1,106.4)	(967.2)	(2,647.3)
Deposits from customers	(8,256.3)	(411.7)	(881.2)	(2,193.7)	(626.5)	(46.6)	(91.4)	(12,507.4)
Deferred items	-	-	-	-	-	-	(0.2)	(0.2)
Provisions for liabilities and charges	(1.3)	(0.3)	(1.0)	(9.0)	(3.6)	(2.8)	(109.0)	(127.1)
Other liabilities	(0.2)	(12.3)	(10.1)	(22.9)	(8.0)	(15.1)	(226.3)	(295.0)
Equity	-	-	-	-	-	-	(2,898.6)	(2,898.6)
Total liabilities and equity	**(8,257.8)**	**(739.0)**	**(930.7)**	**(2,333.7)**	**(750.7)**	**(1,170.9)**	**(4,292.8)**	**(18,475.5)**
Gap per time band	(7,697.7)	(382.8)	(394.3)	(240.2)	1,571.1	1,098.6	8,081.8	
Gap in %	**(37.5%)**	**(1.9%)**	**(1.9%)**	**(1.2%)**	**7.7%**	**5.4%**	**39.4%**	

41. RISK MANAGEMENT (CONTINUED)

The following table details the remaining maturity for Bank's off-balance positions as at 31 December 2019:

in HRK million

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Off-Balance								
Non used overdrafts, frames and credit lines	1,509.6	8.8	56.2	154.8	-	8.4	32.5	1,770.3
Guarantees & Letters of credit	135.7	26.5	71.1	267.0	-	22.2	19.0	541.3
Derivatives nominal - long	-	419.5	74.3	312.8	-	-	-	806.5
Derivatives nominal - short	-	(419.5)	(74.3)	(312.8)	-	-	-	(806.5)

The following table details the remaining maturity for Bank's off-balance positions as at 31 December 2018:

in HRK million

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Off-Balance								
Non used overdrafts, frames and credit lines	1,683.5	8.2	20.3	186.1	-	5.9	39.4	1,943.4
Guarantees & Letters of credit	111.8	17.9	89.0	244.4	-	17.4	7.3	487.9
Derivatives nominal - long	-	542.6	79.5	91.3	-	-	-	713.5
Derivatives nominal - short	-	(542.6)	(79.5)	(91.3)	-	-	-	(713.5)

41.10. Operational risk

Operational Risk is the risk of a loss resulting from inadequate or failed internal processes, systems, people or from external events. This definition includes legal risk.

Regulatory requirements with respect to the operational risk management process are related to continuous determination of risk to which the Bank is exposed or could be exposed in their operations and analysis of the risk exposure causes. Standards for an operational risk management process are aligned with the legislation of CNB.

To calculate the capital requirement for the operational risk, Bank uses the standardized approach.

Operational risk management process includes comprehensiveness of the organizational structure, policies, processes, procedures, systems and resources for identifying, measuring and assessing, controlling, monitoring and reporting of operational risk exposures and risk management in general, and includes the establishment of appropriate corporate governance and risk culture.

The organizational structure of the operational risk management reflects the fact that operational risk is inherent in the overall operations of the Bank including a Risk Control function as a central component that coordinates, analyses and monitors operational risk, and a decentralized component in all organizational units of the Bank responsible for everyday practical use and implementation of operational risk management process.

41. RISK MANAGEMENT (CONTINUED)

Within the operational risk management, roles and responsibilities are strictly defined and documented in internal documents which allow communication and collaboration at all levels, and an adequate flow and circulation of information relevant for operational risk management. Non blaming culture prevents any conflict of interest in the data collection process.

Raising awareness on operational risk management is carried out by continuously organizing internal trainings in the Bank and by establishing the Operational Risk Committee as a body for approval and discussion of strategic issues related to monitoring and managing operational risk at the level of the Bank. Additionally, the Bank ensures continuous internal trainings and internal publications in order to increase risk awareness regarding operational risk management.

Operational risk management process is based on a proactive approach to the early detection and prevention of operational risk events that could cause a loss. In the document "Operational Risk Management Policy" the Bank has summarized rules for the identification, assessment, management and control of the operational risk. Series of internal acts were created that strategically and operationally define operational risk management process and clearly define the roles and responsibilities of all the Bank's employees involved in it.

Methods of measuring the operational risk include both quantitative and qualitative methods, which represent the tool for observation of changes in the Bank's risk profile.

Quantitative method of measuring the operational risk includes the data collection about the events that resulted in losses or could result in losses due to the operational risk. Qualitative method of measurement of the operational risk includes an analysis of scenarios for events of low frequency and significant consequences on an annual basis, a risk assessment during the implementation of new products, entering into the new markets, outsourced activities, risk assessment within the significant projects and risk and control assessment in business processes according to internal control system methodology.

Internal Control System as part of the operational risk is the sum of all measures designed and implemented to determine, manage and minimize risks in business processes. It is built on a process-oriented approach and it is a core component of all processes in the Bank that are part of or that influence the financial reporting of the Bank. The main goal of an Internal Control System process is to reduce the risks within the business area by establishing adequate control management and by continuous improvement of the process of the established control system in order to assure the correctness of financial and regulatory reporting.

Capital requirement for operational risk as at 31 December 2019 amounts to HRK 94.7 million. Total realized operational risk losses amounts to HRK 133.6 million and these losses are recorded within 691 operational risk events which are mostly influenced by provisions allocated to CHF passive legal cases.
The recovery is recorded in the amount of HRK 0.5 million, which represents net loss in the amount of HRK 133.1 million.

41. RISK MANAGEMENT (CONTINUED)

41.11. Other risks

41.11.1. Strategic risk / Business risk

Strategic risk means the risk of loss caused by adverse business decisions, lack of responsiveness to changes in the economic environment. It arises from the faulty management decisions on corporate positioning, treatment of business sectors, the choice of business partners or the development and use of internal potentials.

Ability to manage strategic risk is crucial for its survival and long-term development. Strategic risk management primarily involves the Bank's relation to the environment in which it operates, decisions in response to the changes that occur in its business environment and making decisions related to capital and other resources in a manner that creates a priority of the Bank as a whole in front of her competition.

Business risk is defined as potential loss in earnings due to adverse, unexpected changes in business volume, margins or both. Such losses can result above all from a serious deterioration of the market environment, customer shift, changes in the competitive situation or internal restructuring.

It can lead to serious losses in earnings, thereby diminishing the market value of a company.

Business risk is in principle driven by three key factors:

- Revenue Volatility
- Pre-tax Operating Profit Margin
- Cost Base Flexibility

Increased revenue volatility will increase the probability of revenue falling below costs, hence incurring a business risk loss.

41.11.2. Legal risk

Legal Risk results due to a possibility that unfulfilled contractual obligations, court proceedings against credit institutions, as well as unenforceable business decisions negatively affect the business or financial position of the credit institution. The Bank conducts quantitative and qualitative measurement of exposure of legal risks. Quantitative assessment includes gathering data on losses incurred due to legal risks. In addition to the overall legal risk assessment, quality measured and analysed are the individual segments of legal risk that the Bank has specifically highlighted are legislation and regulation, legal and regulatory compliance, liability for damages and contract performance.

The association "Franak" initiated a consumer protection proceedings against 8 banks for the protection of the collective interests and rights in April 2012, claiming nullity of the unilateral interest change provisions and the CHF currency clause provisions in CHF loan agreements.

The most relevant decisions that preceded the considerable increase of the number of individual CHF court's proceedings against the Bank during 2019 are the following (i) May 2015 – the Supreme Court of the Republic of Croatia has fully confirmed the decision of the High Commercial Court of the Republic of Croatia on the nullity of the unilateral interest change provision in CHF loan agreements, and (ii) September 2019 - the Supreme Court of the Republic of Croatia has confirmed the decision of the High Commercial Court of the Republic of Croatia on the nullity of the currency clause provision in CHF loan agreements.

41. RISK MANAGEMENT (CONTINUED)

Borrowers whether participating in the class action or not cannot exert any direct claims from the verdict but have to file individual complaints regarding any potential overpayment claims due to the FX clause. Since this verdict is not directly binding to all lower courts each borrower has to claim individually and prove the preconditions. Currently the Bank assumes that cases concerning converted loans are not open to annulment. On 12 December 2019 the Supreme Court announced that it accepted the request from a first instance court to rule in a sample case procedure whether converted loans can still be annulled. It is expected that the Supreme Court will render its ruling until mid of April 2020.

41.11.3. Outsourcing risk

Outsourcing risk represents the term for all the risks that can arise when the Bank is contractually delegating of activities to the service providers for services which would normally performed by the Bank itself and as such risk cannot be quantified separately, but its influence is being observed through other risks such as operational risk, strategic, reputational, legal, etc., which could have a negative effect on the financial result, business continuity or Bank reputation.

41.11.4. Reputational risk

The Reputational risk is defined as the current or prospective risk to earnings and capital arising from adverse perception of the image of the financial institution on the part of clients, counterparties, shareholders, investors or regulators.

The bank’s reputation reflects the information that third parties have on how trustworthy the behaviour has been in the past.

The Bank distinguishes between two major factors for reputational risk:

- Reputational risk caused by internal and external complaints
- Reputational risk as a matter of the damage to the bank´s image

41.11.5. Systemic risk

Systemic risk is understood as the risk of disruption in the financial system as a whole or parts of the financial system.

41.12. Derivative financial instruments

Credit exposure or replacement cost of financial derivative instruments represents the Bank’s credit exposure from contracts with a positive fair value, that is, it indicates the estimated maximum potential losses of the Bank in the event that counterparties fail to perform their obligations. This is usually a small fraction of the notional amounts of the contracts. The credit exposure of each contract is indicated by the credit equivalent, calculated pursuant to generally applicable methodology using the current exposure method and it involves the fair market value of the contract (only if positive, otherwise a zero value is taken into account) and a portion of nominal value, which indicates the potential change in fair market value over the term of the contract.

41. RISK MANAGEMENT (CONTINUED)

The credit equivalent is established depending on the type of contract and its maturity. The Bank periodically assesses credit risks of all financial instruments.

Derivative financial instruments used by the Bank include interest, cross-currency and currency swaps and forwards, whose value changes in response to changes in interest rates and foreign exchange rates. Derivatives are either standardized contracts transacted through regulated exchanges or individually negotiated contracts. Swap arrangements are used for hedging of exposure resulting from adverse movements in interest and exchange rates, as well as for transformation of currency liquidity.

42. CAPITAL MANAGEMENT

The Bank maintains an actively managed capital level to cover risks inherent in the business. The capital adequacy is monitored using, among other measures, the rules and ratios established by the European Banking Authority ("EBA") and CNB. In 2019 and 2018 the Bank has complied in full with all imposed capital requirements.

The capital adequacy ratio is calculated as the ratio between regulatory capital and total risk exposure amount consisting of risk weighted exposure amount for credit, counterparty, dilution and free deliveries risk, risk exposure amount for settlement/delivery, risk exposure amount for position, foreign and exchange and commodities risks, risk exposure amount for operational risk, risk exposure amount for credit valuation adjustment and risk exposure amount related to large exposures in the Trading Book.

Credit institutions in the Republic of Croatia are calculating and reporting on prudential requirements in accordance with Capital Requirements Regulation (EU) No 575/2013 ("CRR"), Directive 2013/36/EU ("CRD IV"), Implementing technical standards and other relevant regulations prescribed by European Banking Authority and national discretions prescribed by local regulator, the Croatian National Bank. The Bank’s regulatory capital requirements were based on Basel III.

The Bank's regulatory capital consist of Common Equity Tier 1 ("CET1") capital and Tier 2 capital ("T2"). The CET1 capital includes ordinary share capital, accumulated other comprehensive income, other reserves and transitional adjustments due to grandfathered CET1 capital instruments, and adjusted for amount due to prudential filters and deductions for intangible assets, deferred tax assets that rely on future profitability and do not arise from temporary differences and other transitional adjustments. The T2 capital includes eligible subordinated debt.

The regulatory minimum capital ratios including the regulatory buffers as of 31 December 2019 and 31 December 2018 amount to:

	2019			2018		
	Common Equity Tier 1	Tier 1	Total capital	Common Equity Tier 1	Tier 1	Total capital
Pillar I requirement	4.5%	6.0%	8.0%	4.5%	6.0%	8.0%
Pillar II requirement	3.7%	3.7%	3.7%	3.5%	3.5%	3.5%
Total SREP Capital Requirement	**8.2%**	**9.7%**	**11.7%**	**8.0%**	**9.5%**	**11.5%**
Capital Conservation Buffer	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Systemic risk buffer in the amount	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Countercyclical Capital Buffer	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Overall Capital Requirement	**13.7%**	**15.2%**	**17.2%**	**13.5%**	**15.0%**	**17.0%**

In addition to Pillar I minimum capital adequacy ratios, prescribed by the Article 92 of the CRR, the Bank also has to fulfil capital requirements determined in the Supervisory Review and Evaluation Process (SREP). As a result of the SREP process, the CNB informed the Bank by way of an official notification for the year 2019, to hold additional 3.7% (2018: 3.5%) CET 1 capital to cover risks which are not, or not adequately, considered under Pillar I.

In addition to regulatory prescribed minimum capital adequacy ratios and in accordance with Articles 117, 118 and 130 of CNB’s Credit Institutions Act and Articles 129, 130 and 133 of CRD IV, the Bank is also obliged to maintain prescribed capital conservation buffer, systemic risk buffer and countercyclical capital buffer.

42. CAPITAL MANAGEMENT (CONTINUED)

The following table shows the breakdown of own funds as at 31 December 2019 and 31 December 2018:

in HRK million

Reference*		2019	2018
	Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	2,558.9	2,558.9
2	Retained earnings	-	62.6
3	Accumulated other comprehensive income (and other reserves)	235.2	174.8
6	**CET1 capital before regulatory adjustments**	**2,794.1**	**2,796.3**
	CET1 capital: regulatory adjustments		
7	Additional value adjustments	(5.7)	(5.7)
8	Intangible assets (net of related tax liability)	(51.7)	(59.9)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met)	(46.6)	(74.3)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(104.0)**	**(139.9)**
29	**Common Equity Tier 1 (CET1) capital**	**2,690.1**	**2,656.4**
	Tier 2 (T2) capital: instruments and provisions		
58	**Tier 2 (T2) capital**	**309.1**	**513.6**
59	**Total capital (TC = T1 + T2)**	**2,999.2**	**3,170.0**
60	Total risk weighted assets	11,438.0	11,637.9
	Capital ratios and buffers %		
61	CET1 ratio	23.5%	22.8%
63	TC ratio	26.2%	27.2%

**The references identify the lines prescribed in the EBA template, which are applicable and where there is a value. The structure is based on the final draft for implementing technical standards on disclosure for own funds published in the Official Journal of the European Union on 20 December 2013. Changes are possible due to final Regulatory Technical Standards (RTS) that are not yet available.*

The following table shows the breakdown of risk weighted assets as at 31 December 2019 and 31 December 2018:

in HRK million

Reference*		2019	2018
1	Credit risk pursuant to Standardised Approach	10,105.4	10,403.5
6	Counterparty credit risk	19.4	13.2
19	Market risk	129.5	57.1
23	Operational risk	1,183.7	1,164.1
Total risk exposure amount		**11,438.0**	**11,637.9**

**The references identify the lines prescribed in the EBA template, which are applicable and where there is a value.*

The following table shows leverage ratio as at 31 December 2019 and 31 December 2018:

in HRK million

Reference*		2019	2018
20	Tier 1 capital	2,690.1	2.656,4
21	Total leverage ratio exposure	18,618.0	19.116,5
22	**Leverage ratio %**	**14.4%**	**13.9%**

**The references identify the lines prescribed in the EBA template, which are applicable and where there is a value.*

43. EVENTS AFTER THE REPORTING PERIOD

Due to regulatory changes related to expected credit losses classified in Stage 1 and Stage 2, banks in the Republic of Croatia as of 1 January 2020 will no longer be obliged to maintain a minimum level of expected credit losses at 0.8% of total gross exposure. This is further to Article 21 of the Decision on the classification of exposures into risk categories and the method of determining credit losses, as well as the CNB's answer to the question 2019-712, published on 23 December 2019. Accordingly, as of 31 January 2020, the Bank recognised HRK 19.9 million of impairment gain for exposures classified in Stage 1 and Stage 2 due to the lower amount of expected credit losses estimated by the internal model.

APPENDIX TO THE FINANCIAL STATEMENTS

Pursuant to the Croatian Accounting Act (Official Gazette 78/2015, 134/2015, 120/2016, 116/2018) the Croatian National Bank issued the Decision on structure and contents of annual financial statements of credit institutions (Official Gazette 42/2018). The following tables present financial statements in accordance with the above mentioned decision:

Statement of Financial Position

in HRK million

Position	Position Name	2019	2018
	Assets		
1.	Cash, cash balances at central banks and other demand deposits (from 2. to 4.)	1,828.4	2,049.8
2.	*Cash on hand*	*328.0*	*349.1*
3.	*Cash balances at central banks*	*1,313.7*	*1,502.1*
4.	*Other demand deposits*	*186.7*	*198.6*
5.	Financial assets held for trading (from 6. to 9.)	126.7	104.8
6.	*Derivatives*	*4.3*	*5.7*
7.	*Equity instruments*	-	-
8.	*Debt securities*	*122.4*	*99.1*
9.	*Loans and advances*	-	-
10.	Non-trading financial assets mandatorily at fair value through profit or loss (from 11. to 13.)	121.9	121.2
11.	*Equity instruments*	*121.9*	*121.2*
12.	*Debt securities*	-	-
13.	*Loans and advances*	-	-
14.	Financial assets designated at fair value through profit or loss (15. + 16.)	-	-
15.	*Debt securities*	-	-
16.	*Loans and advances*	-	-
17.	Financial assets at fair value through other comprehensive income (from 18. to 20.)	4,112.7	4,486.0
18.	*Equity instruments*	*38.6*	27.3
19.	*Debt securities*	*4,074.1*	4,458.7
20.	*Loans and advances*	-	-
21.	Financial assets at amortised cost (22. + 23.)	11,287.1	11,153.0
22.	*Debt securities*	*4.4*	26.6
23.	*Loans and advances*	*11,282.7*	11,126.4
24.	Derivatives – hedge accounting	-	-
25.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
26.	Investments in subsidiaries, joint ventures and associates	-	-
27.	Tangible assets	280.8	187.0
28.	Intangible assets	71.1	82.2
29.	Tax assets	84.4	102.4
30.	Other assets	51.1	71.7
31.	Non-current assets and disposal groups classified as held for sale	5.1	22.4
32.	**Total assets (1. + 5. +10. +14. + 17. + 21. + from 24. to 31.)**	**17,969.3**	**18,380.5**

Statement of Financial Position (continued)

in HRK million

Position	Position Name	2019	2018
	Liabilities		
33.	Financial liabilities held for trading (from 34. to 38.)	8.9	4.2
34.	*Derivatives*	*8.9*	*4.2*
35.	*Short positions*	-	-
36.	*Deposits*	-	-
37.	*Debt securities issued*	-	-
38.	*Other financial liabilities*	-	-
39.	Financial liabilities designated at fair value through profit or loss (from 40. to 42.)	-	-
40.	*Deposits*	-	-
41.	*Debt securities issued*	-	-
42.	*Other financial liabilities*	-	-
43.	Financial liabilities measured at amortised cost (from 44. to 46.)	14,623.5	15,173.3
44.	*Deposits*	*14,472.2*	*15,173.2*
45.	*Debt securities issued*	-	-
46.	*Other financial liabilities*	*151.3*	*0.1*
47.	Derivatives - hedge accounting	-	-
48.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
49.	Provisions	220.9	110.3
50.	Tax liabilities	-	-
51.	Share capital repayable on demand	-	-
52.	Other liabilities	97.3	194.1
53.	Liabilities included in disposal groups classified as held for sale	-	-
54.	**Total liabilities (33. + 39. + 43. + from 47. to 53.)**	**14,950.6**	**15,481.9**
	Capital		
55.	Share capital	2,558.9	2,558.9
56.	Share premium	-	-
57.	Equity instruments issued other than capital	-	-
58.	Other equity	-	-
59.	Accumulated other comprehensive income	102.1	36.6
60.	Retained earnings	62.8	(6.0)
61.	Revaluation reserves	-	-
62.	Other reserves	138.2	138.2
63.	(-) Treasury shares	-	-
64.	Profit or loss attributable to owners of the parent	156.7	170.9
65.	(-) Interim dividends	-	-
66.	Minority interests [non-controlling interests]	-	-
67.	**Total equity (from 55. to 66.)**	**3,018.7**	**2,898.6**
68.	**Total equity and total liabilities (54. + 67.)**	**17,969.3**	**18,380.5**

Signed on behalf of Addiko Bank d.d. Zagreb on 27 February 2020:

Mario Žižek	Ivan Jandrić	Dubravko-Ante Mlikotić	Joško Mihić
President of the Management Board	Member of the Management Board	Member of the Management Board	Procurator

Statement of Profit or Loss

in HRK million

Position	Position Name	2019	2018
1.	Interest income	569.8	627.4
2.	(Interest expenses)	(88.5)	(164.4)
3.	(Expenses on share capital repayable on demand)	-	-
4.	Dividend income	0.1	0.1
5.	Fee and commission income	229.7	214.8
6.	(Fee and commission expenses)	(37.1)	(39.3)
7.	Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	41.3	10.4
8.	Gains or (-) losses on financial assets and liabilities held for trading, net	33.1	33.8
9.	Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	33.6	0.1
10.	Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-
11.	Gains or (-) losses from hedge accounting, net	-	-
12.	Exchange differences [gain or (-) loss], net	5.6	3.7
13.	Gains or (-) losses on derecognition of non-financial assets, net	0.8	-
14.	Other operating income	29.3	30.3
15.	(Other operating expenses)	(42.8)	(53.3)
16.	**Total operating income, net**	**774.9**	**663.6**
17.	(Administrative expenses)	(381.3)	(414.5)
18.	(Depreciation)	(49.9)	(26.7)
19.	Modification gains or (-) losses, net	-	-
20.	(Provisions or (-) reversal of provisions)	(125.1)	1.6
21.	(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	(26.3)	(27.2)
22.	(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	-	-
23.	(Impairment or (-) reversal of impairment on non-financial assets)	(31.8)	(8.6)
24.	Negative goodwill recognised in profit or loss	-	-
25.	Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates	-	-
26.	Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	(0.9)	-
27.	**Profit or (-) loss before tax from continuing operations**	**159.6**	**188.2**
28.	(Tax Expenses or (-) income related to profit or loss from continuing operations)	(2.9)	(17.3)
29.	**Profit or (-) loss after tax from continuing operations**	**156.7**	**170.9**
30.	**Profit or (-) loss after tax from discontinued operations**	**-**	**-**
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**	**156.7**	**170.9**
34.	Attributable to minority interest [non-controlling interests]	-	-
35.	Attributable to owners of the parent	156.7	170.9

Statement of Other Comprehensive Income

in HRK million

Position	Position Name	2019	2018
1.	**Profit or (-) loss for the year**	**156.7**	**170.9**
2.	**Other comprehensive income**	**65.5**	**(30.2)**
3.	**Items that will not be reclassified to profit or loss**	**6.5**	**(0.2)**
4.	Tangible assets	0.2	(1.1)
5.	Intangible assets	-	-
6.	Actuarial gains or (-) losses on defined benefit pension plans	-	-
7.	Non-current assets and disposal groups held for sale	(3.6)	(1.5)
8.	Share of other recognized 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	11.3	2.4
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.	Income tax relating to items that will not be reclassified	(1.4)	-
15.	**Items that may be reclassified to profit or loss**	**59.0**	**(30.0)**
16.	Hedge 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	72.0	(36.6)
21.	Non-current assets and disposal groups held for sale	-	-
22.	Share of other recognized income and expense of Investments in subsidiaries, joint ventures and associates	-	-
23.	Income tax relating to items that may be reclassified to profit or (-) loss	(13.0)	6.6
24.	**Total comprehensive income for the year**	**222.2**	**140.7**
25.	Attributable to minority interest [non-controlling interests]	-	-
26.	Attributable to owners of the parent	222.2	140.7

Signed on behalf of Addiko Bank d.d. Zagreb on 27 February 2020:

Mario Žižek	Ivan Jandrić	Dubravko-Ante Mlikotić	Joško Mihić
President of the Management Board	Member of the Management Board	Member of the Management Board	Procurator

Statement of Cash Flows

in HRK million

Position	Position Name	2019	2018
	Operating activities by indirect method		
1.	Profit/(loss) before tax	159.6	188.2
	Adjustments:		
2.	Impairment and provisions	176.1	30.7
3.	Depreciation	49.9	26.7
4.	Net unrealized loss/(gain) from financial assets and liabilities at fair value through profit or loss	4.1	1.1
5.	(Gain)/loss on disposal of tangible assets	(1.2)	(2.7)
6.	Other non-monetary items	(486.5)	(471.4)
	Change in assets and liabilities from operating activities		
7.	Balances with Croatian National Bank	22.8	198.5
8.	Deposits and loans with credit institutions	(9.1)	96.3
9.	Loans and advances to other customers	(123.0)	424.1
10.	Securities and other financial instruments at fair value through other comprehensive income	523.7	190.7
11.	Securities and other financial instruments held for trading	(16.6)	(108.0)
12.	Non-trading securities and other financial assets mandatorily at fair value through profit or loss	(0.5)	11.7
13.	Securities and other financial instruments mandatory at fair value through profit or loss	-	-
14.	Securities and other financial instruments mandatory at amortised cost	-	-
15.	Other assets from operating activities	2.9	23.4
16.	Deposits from financial institutions	(57.7)	84.6
17.	Transaction accounts of other customers	341.4	(88.9)
18.	Demand deposits of other costumers	468.3	1,394.7
19.	Term deposits of other customers	(1,490.7)	(3,090.0)
20.	Derivative financial liabilities and other trading liabilities	(4.0)	(0.2)
21.	Other liabilities from operating activities	(19,8)	(38.8)
22.	Interest received from operating activities	561.9	583.8
23.	Dividends received from operating activities	0.1	0.1
24.	Interest paid from operating activities	(104.6)	(217.3)
25.	(Income taxes paid)	-	-
26.	**Net cash flow from operating activities (from 1. to 25.)**	**(2.9)**	**(762.7)**
	Investing activities		
27.	Proceeds from sale/(payments for purchase) of tangible and intangible assets	(45.7)	(41.7)
28.	Proceeds from sale/(payments for purchase) of investments in subsidiaries, joint ventures and associates	-	-
29.	Proceeds from sale/(payments for purchase) of securities and other financial instruments from investing activities	-	-
30.	Dividends received from investing activities	-	-
31.	Other proceeds/(payments) from investing activities	-	-
32.	**Net cash flow from investing activities (from 27. to 31.)**	**(45.7)**	**(41.7)**
	Financing activities		
33.	Net increase/(decrease) of borrowings from financial activities	(12.0)	(215.1)
34.	Net increase/(decrease) of borrowings from issued debt securities	-	-
35.	Net increase/(decrease) of subordinated debt	-	(738.5)
36.	Increase of share capital	-	-
37.	(Dividend paid)	(102.4)	(102.4)
38.	Other proceeds/(payments) from financing activities	(16.1)	5.2
39.	**Net cash flows from financing activities (from 33. to 38.)**	**(130.5)**	**(1,050.8)**
40.	**Net increase/(decrease) of cash and cash equivalents (26. + 32. + 39.)**	**(179.1)**	**(1,855.2)**
41.	**Cash and cash equivalents at the beginning of the year**	**2,036.0**	**3,920.4**
42.	Effects of exchange rate changes on cash and cash equivalents	8.8	(29.2)
43.	**Cash and cash equivalents at the end of the year (40. + 41. + 42.)**	**1,865.7**	**2,036.0**

Statement of Changes in Equity

in HRK million

												Minority interests		
Position Name	Capital	Share premium	Equity instruments issued other than capital	Other equity	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
Opening balance [before restatement] for the year 2019	**2,558.9**	**-**	**-**	**-**	**36.6**	**(6.0)**	**-**	**138.2**	**-**	**170.9**	**-**	**-**	**-**	**2,898.6**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance [current period] for the year 2019	**2,558.9**	**-**	**-**	**-**	**36.6**	**(6.0)**	**-**	**138.2**	**-**	**170.9**	**-**	**-**	**-**	**2,898.6**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	(102.4)	-	-	-	(102.4)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	-	68.9	-	-	-	(68.6)	-	-	-	0.3
Total comprehensive income for the year	-	-	-	-	65.5	-	-	-	-	156.7	-	-	-	222.2
Closing balance [current period] for the year 2019	**2,558.9**	**-**	**-**	**-**	**102.1**	**62.9**	**-**	**138.2**	**-**	**156.6**	**-**	**-**	**-**	**3,018.7**

Statement of Changes in Equity (continued)

in HRK million

Position Name	Capital	Share premium	Equity instruments issued other than capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Minority interests: Accumulated other comprehensive income	Minority interests: Other items	Total
Opening balance [before restatement] for the year 2018	**2,558.9**	**-**	**-**	**-**	**66.8**	**0.4**	**-**	**5.3**	**-**	**229.7**	**-**	**-**	**-**	**2,861.1**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	(6.6)	-	-	-	-	-	-	-	(6.6)
Opening balance [current period] for the year 2018	**2,558.9**	**-**	**-**	**-**	**66.8**	**(6.2)**	**-**	**5.3**	**-**	**229.7**	**-**	**-**	**-**	**2,854.5**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	(102.4)	-	-	(102.4)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	-	-	-	-	-	(102.4)	102.4	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	-	0.2	-	132.9	-	(127.3)	-	-	-	5.8
Total comprehensive income for the year	-	-	-	-	(30.2)	-	-	-	-	170.9	-	-	-	140.7
Closing balance [current period] for the year 2018	**2,558.9**	**-**	**-**	**-**	**36.6**	**(6.0)**	**-**	**138.2**	**-**	**170.9**	**-**	**-**	**-**	**2,898.6**

As data in financial statements prepared in accordance with the Croatian National Bank ("CNB") decision are classified differently from data in financial statements prepared according to the statutory accounting requirements for banks in Croatia, the following tables present comparatives.

Comparatives for the Statement of financial position - Assets at 31 December 2019:

in HRK million

		Statutory accounting requirements for banks in Croatia												
Croatian National Bank's Decision		**Cash and cash balances**	**Trading assets**	**Derivative financial assets**	**Loans and receivables from banks**	**Loans and receivables from customers**	**Investment securities**	**Investment property**	**Property and equipment**	**Intangible assets**	**Non-current assets and disposal groups classified as held for sale**	**Deferred tax assets**	**Current tax assets**	**Other assets**
Assets														
Cash, cash balances at central banks and other demand deposits	1,828.4	1,828.4	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets held for trading	126.7	-	122.4	4.3	-	-	-	-	-	-	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	121.9	-	-	-	-	-	121.9	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	4,112.7	-	-	-	-	-	4,112.7	-	-	-	-	-	-	-
Financial assets at amortised cost	11,287.1	1,050.7	-	-	63.8	10,172.6	-	-	-	-	-	-	-	-
Tangible assets	280.8	-	-	-	-	-	-	16.7	264.1	-	-	-	-	-
Intangible assets	71.1	-	-	-	-	-	-	-	19.4	51.7	-	-	-	-
Tax assets	84.4	-	-	-	-	-	-	-	-	-	-	84.4	-	-
Other assets	51.2	-	-	-	-	-	-	-	-	-	-	-	-	51.2
Non-current assets and disposal groups classified as held for sale	5.1	-	-	-	-	-	-	-	-	-	5.1	-	-	-
Total assets	**17,969.4**	**2,879.1**	**122.4**	**4.3**	**63.8**	**10,172.6**	**4,234.6**	**16.7**	**283.5**	**51.7**	**5.1**	**84.4**	**-**	**51.2**

Comparatives for the Statement of financial position – Liabilities and Equity at 31 December 2019:

in HRK million

		Statutory accounting requirements for banks in Croatia										
Croatian National Bank's Decision		**Derivative financial liabilities**	**Current accounts and deposits from banks**	**Current accounts and deposits from customers**	**Borrowings**	**Subordinated debt**	**Provisions**	**Other liabilities**	**Share capital**	**Profit for the year**	**Retained earnings/ (accumulated losses)**	**Reserves**
Liabilities												
Financial liabilities held for trading	8.9	8.9	-	-	-	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	14,623.5	-	116.5	12,976.6	347.2	1,031.9	-	151.3	-	-	-	-
Provisions	220.9	-	-	-	-	-	220.9	-	-	-	-	-
Other liabilities	97.3	-	-	-	-	-	19.8	77.5	-	-	-	-
Total liabilities	**14,950.6**	**8.9**	**116.5**	**12,976.6**	**347.2**	**1,031.9**	**240.7**	**228.8**	**-**	**-**	**-**	**-**
Capital												
Share capital	2,558.9	-	-	-	-	-	-	-	2,558.9	-	-	-
Accumulated other comprehensive income	102.1	-	-	-	-	-	-	-	-	-	-	102.1
Retained earnings	62.9	-	-	-	-	-	-	-	-	-	62.9	-
Other reserves	138.2	-	-	-	-	-	-	-	-	-	-	138.2
Profit or loss attributable to owners of the parent	156.7	-	-	-	-	-	-	-	-	156.7	-	-
Total equity	**3,018.8**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,558.9**	**156.7**	**62.9**	**240.3**
Total equity and total liabilities	**17,969.4**	**8.9**	**116.5**	**12,976.6**	**347.2**	**1,031.9**	**240.7**	**228.8**	**2,558.9**	**156.7**	**62.9**	**240.3**

Comparatives for the Statement of financial position - Assets at 31 December 2018:

in HRK million

		Statutory accounting requirements for banks in Croatia												
Croatian National Bank's Decision		**Cash and cash balances**	**Trading assets**	**Derivative financial assets**	**Loans and receivables from banks**	**Loans and receivables from customers**	**Investment securities**	**Investment property**	**Property and equipment**	**Intangible assets**	**Non-current assets and disposal groups classified as held for sale**	**Deferred tax assets**	**Current tax assets**	**Other assets**
Assets														
Cash, cash balances at central banks and other demand deposits	2,049.8	2,049.8	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets held for trading	104.8	-	99.1	5.7	-	-	-	-	-	-	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	121.2	-	-	-	-	-	121.2	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	4,486.0	-	-	-	-	-	4,486.0	-	-	-	-	-	-	-
Financial assets at amortised cost	11,153.0	1,074.8	-	-	2.5	10,075.6	-	-	-	-	-	-	-	-
Tangible assets	187.0	-	-	-	-	-	-	6.1	180.9	-	-	-	-	-
Intangible assets	82.2	-	-	-	-	-	-	-	22.3	59.9	-	-	-	-
Tax assets	102.4	-	-	-	-	-	-	-	-	-	-	101.7	0.7	-
Other assets	71.7	-	-	-	-	-	-	-	-	-	-	-	-	71.7
Non-current assets and disposal groups classified as held for sale	22.4	-	-	-	-	-	-	-	-	-	22.4	-	-	-
Total assets	**18,380.5**	**3,124.6**	**99.1**	**5.7**	**2.5**	**10,075.6**	**4,607.2**	**6.1**	**203.2**	**59.9**	**22.4**	**101.7**	**0.7**	**71.7**

Comparatives for the Statement of financial position – Liabilities and Equity at 31 December 2018:

in HRK million

		Statutory accounting requirements for banks in Croatia										
Croatian National Bank's Decision		**Derivative financial liabilities**	**Current accounts and deposits from banks**	**Current accounts and deposits from customers**	**Borrowings**	**Subordinated debt**	**Provisions**	**Other liabilities**	**Share capital**	**Profit for the year**	**Retained earnings/ (accumulated losses)**	**Reserves**
Liabilities												
Financial liabilities held for trading	4.2	4.2	-	-	-	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	15,173.3	-	178.3	13,597.2	358.9	1,028.4	-	10.5	-	-	-	-
Provisions	110.3	-	-	-	-	-	110.3	-	-	-	-	-
Other liabilities	194.1	-	-	-	-	-	20.8	173.3	-	-	-	-
Total liabilities	**15,481.9**	**4.2**	**178.3**	**13,597.2**	**358.9**	**1,028.4**	**131.1**	**183.8**	**-**	**-**	**-**	**-**
Capital												
Share capital	2,558.9	-	-	-	-	-	-	-	2,558.9	-	-	-
Accumulated other comprehensive income	36.6	-	-	-	-	-	-	-	-	-	-	36.6
Retained earnings	(6.0)	-	-	-	-	-	-	-	-	-	(6.0)	-
Other reserves	138.2	-	-	-	-	-	-	-	-	-	-	138.2
Profit or loss attributable to owners of the parent	170.9	-	-	-	-	-	-	-	-	170.9	-	-
Total equity	**2,898.6**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,558.9**	**170.9**	**(6.0)**	**174.8**
Total equity and total liabilities	**18,380.5**	**4.2**	**178.3**	**13,597.2**	**358.9**	**1,028.4**	**131.1**	**183.8**	**2,558.9**	**170.9**	**(6.0)**	**174.8**

Comparatives for the statement of profit or loss ended 31 December 2019:

in HRK million

Croatian National Bank's Decision		Statutory accounting requirements for banks in Croatia														
		Interest income	Interest expense	Fee and commission income	Fee and commission expense	Net trading income	Net investment income	Net foreign exchange differences	Other operating income	Personnel expenses	Depre-ciation	Amorti-zation	Other operating expenses	Net impairment loss on financial assets	Other impairment losses and provisions	Income tax
Interest income	569.8	569.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(Interest expenses)	(88.5)	-	(88.5)	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend income	0.1	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-
Fee and commission income	229.7	-	-	229.7	-	-	-	-	-	-	-	-	-	-	-	-
(Fee and commission expenses)	(37.1)	-	-	-	(37.1)	-	-	-	-	-	-	-	-	-	-	-
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	41.3	-	-	-	-	-	41.8	-	-	-	-	-	(0.5)	-	-	-
Gains or (-) losses on financial assets and liabilities held for trading, net	33.1	-	-	-	-	33.1	-	-	-	-	-	-	-	-	-	-
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	33.6	-	-	-	-	-	33.6	-	-	-	-	-	-	-	-	-

in HRK million

Croatian National Bank's Decision		Statutory accounting requirements for banks in Croatia														
		Interest income	Interest expense	Fee and commission income	Fee and commission expense	Net trading income	Net investment income	Net foreign exchange differences	Other operating income	Personnel expenses	Depre-ciation	Amorti-zation	Other operating expenses	Net impairment loss on financial assets	Other impairment losses and provisions	Income tax
Exchange differences [gain or (-) loss], net	5.6	-	-	-	-	-	-	5.6	-	-	-	-	-	-	-	-
Gains or (-) losses on derecognition of non-financial assets, net	0.8	-	-	-	-	-	-	-	0.9	-	-	-	-	-	-	-
Other operating income	29.3	-	0.3	-	-	-	-	-	29.0	-	-	-	-	-	-	-
(Other operating expenses)	(42.7)	-	-	-	-	-	-	-	(0.9)	-	-	-	(41.7)	-	-	-
Total operating income, net	**775.0**	**569.8**	**(88.2)**	**229.7**	**(37.1)**	**33.1**	**75.4**	**5.6**	**29.1**	**-**	**-**	**-**	**(42.2)**	**-**	**-**	**-**
(Administrative expenses)	(381.3)	-	(0.4)	-	(2.3)	-	-	-	-	(213.1)	-	-	(163.5)	(2.1)	-	-
(Depreciation)	(49.9)	-	-	-	-	-	-	-	-	-	(36.9)	(13.0)	-	-	-	-
(Provisions or (-) reversal of provisions)	(125.1)	-	-	-	-	-	-	-	-	(10.7)	-	-	-	-	(114.4)	-
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	(26.3)	-	-	-	-	-	-	-	-	-	-	-	-	(26.3)	-	-

in HRK million

Croatian National Bank's Decision		Statutory accounting requirements for banks in Croatia														
		Interest income	Interest expense	Fee and commission income	Fee and commission expense	Net trading income	Net investment income	Net foreign exchange differences	Other operating income	Personnel expenses	Depre-ciation	Amorti-zation	Other operating expenses	Net impairment loss on financial assets	Other impairment losses and provisions	Income tax
(Impairment or (-) reversal of impairment on non-financial assets)	(31.8)	-	-	-	-	-	-	-	-	-	-	-	-	-	(31.8)	-
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	(0.9)	-	-	-	-	-	-	-	0.8	-	-	-	(0.2)	-	(1.6)	-
Profit or (-) loss before tax from continuing operations	**159.7**	**569.8**	**(88.6)**	**229.7**	**(39.4)**	**33.1**	**75.4**	**5.6**	**29.9**	**(223.8)**	**(36.9)**	**(13.0)**	**(205.9)**	**(28.4)**	**(147.8)**	**-**
(Tax Expenses or (-) income related to profit or loss from continuing operations)	(2.9)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2.9)
Profit or (-) loss after tax from continuing operations	**156.8**	**569.8**	**(88.6)**	**229.7**	**(39.4)**	**33.1**	**75.4**	**5.6**	**29.9**	**(223.8)**	**(36.9)**	**(13.0)**	**(205.9)**	**(28.4)**	**(147.8)**	**(2.9)**
Profit or (-) loss for the year	**156.8**	**569.8**	**(88.6)**	**229.7**	**(39.4)**	**33.1**	**75.4**	**5.6**	**29.9**	**(223.8)**	**(36.9)**	**(13.0)**	**(205.9)**	**(28.4)**	**(147.8)**	**(2.9)**

Comparatives for the statement of profit or loss ended 31 December 2018:

in HRK million

Croatian National Bank's Decision		Statutory accounting requirements for banks in Croatia														
		Interest income	Interest expense	Fee and commission income	Fee and commission expense	Net trading income	Net investment income	Net foreign exchange differences	Other operating income	Personnel expenses	Depre-ciation	Amorti-zation	Other operating expenses	Net impairment loss on financial assets	Other impairment losses and provisions	Income tax
Interest income	627.4	627.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(Interest expenses)	(164.4)	-	(164.4)	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend income	0.1	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-
Fee and commission income	214.8	-	-	214.8	-	-	-	-	-	-	-	-	-	-	-	-
(Fee and commission expenses)	(39.3)	-	-	-	(39.3)	-	-	-	-	-	-	-	-	-	-	-
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	10.4	-	-	-	-	-	10.4	-	-	-	-	-	-	-	-	-
Gains or (-) losses on financial assets and liabilities held for trading, net	33.8	-	-	-	-	33.8	-	-	-	-	-	-	-	-	-	-

in HRK million

Croatian National Bank's Decision		Statutory accounting requirements for banks in Croatia														
		Interest income	Interest expense	Fee and commission income	Fee and commission expense	Net trading income	Net investment income	Net foreign exchange differences	Other operating income	Personnel expenses	Depre-ciation	Amorti-zation	Other operating expenses	Net impairment loss on financial assets	Other impairment losses and provisions	Income tax
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	0.1	-	-	-	-	-	0.1	-	-	-	-	-	-	-	-	-
Exchange differences [gain or (-) loss], net	3.7	-	-	-	-	-	-	3.7	-	-	-	-	-	-	-	-
Other operating income	30.3	-	-	-	-	-	-	-	30.3	-	-	-	-	-	-	-
(Other operating expenses)	(53.3)	-	-	-	-	-	-	-	-	-	-	-	(53.3)	-	-	-
Total operating income, net	**663.6**	**627.4**	**(164.4)**	**214.8**	**(39.3)**	**33.8**	**10.5**	**3.7**	**30.4**	**-**	**-**	**-**	**(53.3)**	**-**	**-**	**-**
(Administrative expenses)	(414.5)	-	(0.5)	-	(1.4)	-	-	-	-	(226.7)	-	-	(183.5)	(2.4)	-	-
(Depreciation)	(26.7)	-	-	-	-	-	-	-	-	-	(16.8)	(9.9)	-	-	-	-
(Provisions or (-) reversal of provisions)	1.6	-	-	-	-	-	-	(0.1)	-	(5.8)	-	-	-	-	7.5	-
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	(27.2)	-	-	-	-	-	-	-	-	-	-	-	-	(27.2)	-	-

in HRK million

Croatian National Bank's Decision		Statutory accounting requirements for banks in Croatia														
		Interest income	Interest expense	Fee and commission income	Fee and commission expense	Net trading income	Net investment income	Net foreign exchange differences	Other operating income	Personnel expenses	Depre-ciation	Amorti-zation	Other operating expenses	Net impairment loss on financial assets	Other impairment losses and provisions	Income tax
(Impairment or (-) reversal of impairment on non-financial assets)	(8.6)	-	-	-	-	-	-	-	-	-	-	-	-	-	(8.6)	-
Profit or (-) loss before tax from continuing operations	**188.2**	**627.4**	**(164.9)**	**214.8**	**(40.7)**	**33.8**	**10.5**	**3.6**	**30.4**	**(232.5)**	**(16.8)**	**(9.9)**	**(236.8)**	**(29.6)**	**(1.1)**	**-**
(Tax expenses or (-) income related to profit or loss from continuing operations)	(17.3)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(17.3)
Profit or (-) loss after tax from continuing operations	**170.9**	**627.4**	**(164.9)**	**214.8**	**(40.7)**	**33.8**	**10.5**	**3.6**	**30.4**	**(232.5)**	**(16.8)**	**(9.9)**	**(236.8)**	**(29.6)**	**(1.1)**	**(17.3)**
Profit or (-) loss for the year	**170.9**	**627.4**	**(164.9)**	**214.8**	**(40.7)**	**33.8**	**10.5**	**3.6**	**30.4**	**(232.5)**	**(16.8)**	**(9.9)**	**(236.8)**	**(29.6)**	**(1.1)**	**(17.3)**

ABBREVIATIONS

Addiko Group	Group of banks including Holding in Austria, and six banks in Croatia, Slovenia, Serbia, Bosnia and Herzegovina and Montenegro
ATX	Austrian Traded Index
Bank	Addiko Bank d.d. Zagreb, Croatia
CAPEX	Capital expenditures
CBRD	Croatian Bank for Reconstruction and Development
CCBO	Chief Corporate Business Officer
CEO	Chief Executive Officer
CIR	Cost to Income Ratio
CSEE	Central and South-Eastern Europe
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CHF	Swiss Franc (currency)
CICR	Currency induced credit risk
CNB	Croatian National Bank
COO	Chief Operations Officer
CRO	Chief Risk Officer
CRBO	Chief Retail Banking Officer
CRR	Capital Requirements Regulation
CVA	Credit valuation adjustment
EAD	Exposure at Default
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
ECL	Expected Credit Loss
ERM 2	European Exchange Rate Mechanism 2
EU	European Union
EUR	Euro (currency)
FTE	Full-time Employee
FVTOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
FX	Foreign exchange
GAAP	Generally accepted accounting principles
GDP	Gross Domestic Product
GPPC	Global Public Policy Committee
HRK	Croatian Kuna (currency)
IAS	International Accounting Standard
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
ICS	Internal Control System
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IPO	Initial Public Offering
KRI	Key Risk Indicators
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
MKL	Minimum liquidity coefficient
NPE	Non-performing Exposure
NPL	Non-performing Loans
NPS	Net Promoter Score
OECD	Organization for Economic Co-operation and Development
OPEX	Operating expenses
OTC	Over-the-counter
PD	Probability of Default
PMS	Portfolio Management System
POCI	Purchased or originated credit-impaired
SEE	South-East Europe
SME	Small and Medium Enterprises
SPPI	Solely Payments of Principal and Interest
VaR	Value at Risk
VAT	Value Added Tax
wiiw	Vienna Institute for International Economic Studies
YE	Year end
YoY	Year-on-Year
YTD	Year to Date

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