Addiko Bank

Annual Report 2017

Addiko Bank d.d.
Croatia

Key data

HRK Mio

	Group and Bank 2017	Group 2016	Bank 2016
Profit or Loss statement			
Net interest income	480.5	443.8	442.4
Net fee and commission income	175.4	179.6	172.7
Other operating income	105.5	193.4	142.3
Operating expenses	(491.0)	(699.5)	(642.4)
Operating result	270.4	117.3	115.0
Impairment losses	(111.9)	(106.3)	(104.5)
Result on conversion of CHF loans	(5.3)	68.9	69.0
Net profit for the year	229.7	59.6	59.2
Statement of Financial Position			
Loans and receivables	10,401.4	12,341.2	12,656.9
Due to customers	15,657.2	15,498.5	15,514.7
Equity	2,861.0	2,589.0	2,581.8
Total assets	21,130.5	20,981.4	20,984.5
Risk-weighted assets	11,774.6	12,506.4	12,347.3
Key ratios			
Cost/income ratio	64%	86%	85%
Net interest margin	2.3%	2.0%	2.0%
Bank-specific figures			
Core Tier 1 ratio	20.1%	19.2%	19.5%
Total capital ratio	27.8%	29.4%	29.9%

Contents

Letter from the CEO

Dear Customers, Partners, Employees and Shareholders

thinking back on the past year I found myself with a challenging, but fulfilling task of having to chose from a lot of achievements and highlight those most important, as Addiko Bank d.d. in 2017 made notable progress and significant steps forward in becoming an exceptionally good bank.

Back in 2016 when we underwent the rebranding process and made considerable adjustments in our corporate strategy and business model I knew that we had started on a journey that will demand hard work, dedication, perseverance, cultural change and more customer-centricity, and I believed that if we remain focused that all stakeholders will see results and progress in many areas.

If 2016 was the year of the turnaround, 2017 was the year of a breakthrough for us. We recorded above benchmark growth of new business in our key customer segments, retail and small and medium corporates; we significantly improved our key financials and year-end profit through strong growth of top line revenues and further reduction of the cost base; we further strengthened foundations for sustainable growth with a clean balance sheet, sustainable self-funding capacity, a strong capital base and by posting industry top Capital Adequacy and non-performing loan ratios; we started to take banking into the new era and to set the standards of tomorrow by introducing modern and unique services that directly correspond with the customer needs.

Setting out on our journey we promised to deliver straightforward banking with tangible benefits for our customers, and we for sure kept our promise. However, neither this, nor any of the mentioned achievements marks the end of our transformative journey, and hence I guarantee that we will permanently continue to improve and to become better in every aspect.

I'm honored to be leading Addiko Bank and I am very proud of the Addiko team. If in 2016 I 'only' believed, today I'm convinced that we will continue to realize our potential, make steady and continuous progress, generate sustainable and profitable business, develop a modern Bank, and before anything else create value for our shareholders, customers, partners and employees.

Sincerely,

Mario Žižek

The Management Board

Mario Žižek
Chief Executive Officer

Responsible for:
Legal and Compliance
Internal Audit
Human Resources Management
Corporate Communications
Economic Research
Board Assistance
Finances, Accounting and Treasury
HYPO ALPE-ADRIA-LEASING d.o.o. - u likvidaciji

Jasna Širola
Chief Market Officer & Chief Operations Officer

Responsible for:
Operations
Business Technology
Real Estate Management
Card Processing Centre
Procurement
Product and Clients Relations Management - Retail
Sales and Distribution Channels Management - Retail
Marketing

Ivan Jandrić
Chief Market Officer

Responsible for:
Group Product Management - Business Entities
Sales Support - Corporate and SME
SME Sales Network
Large Corporate

Dubravko-Ante Mlikotić
Chief Risk Officer

Responsible for:
Risk Control
Business Entities Underwriting
Corporate Distressed Asset Management
Retail Risk Management

Joško Mihić
Advisor to the Management Board

Responsible for advising on CFO matters:
Finances
Accounting
Treasury
HYPO ALPE-ADRIA-LEASING d.o.o. – u likvidaciji

Management Report for the year ended 31 December 2017

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 financial group headquartered in Vienna, Austria focusing on markets in the SEE region. Addiko Group operates through six banks with its core business in Croatia, Slovenia, Bosnia and Herzegovina, Serbia and Montenegro and provides daily banking services for over 1 million clients.

Addiko Bank operates under this name since 11 July 2016 (following a successful rebranding of the Addiko Group) and puts customers at the center of its strategy by delivering core products and services relevant to the customers.

The holding company Al Lake (Luxembourg) S.à r.l. is the direct parent company of the Addiko Bank AG and is indirectly owned by funds advised by Advent International, a global private equity investor and the European Bank for Reconstruction and Development (EBRD).

2. General economic conditions in 2017

Croatian gross domestic product rose by around 3% in 2017, which is in line with consensus expectations at the beginning of that year. Despite financial issues related to a large Croatian retailer, the main drivers behind such performance were: record tourism season, stronger private consumption, robust EU trade partners' demand and favorable funding conditions. That said, private consumption rose by some 3.5% driven by the tourist-related spending, strong wage growth, rising employment, lower savings rates and citizens' re-leveraging.

Notwithstanding strong business optimism, higher profits of firms, improved competitiveness and cheap capital, investments were surprisingly on the downside, reflected by halted capital expenditures by a large Croatian retailer and with its economically intertwined companies, accompanied by some EU funding under-performance. Despite having a strong tourism season and a higher import cover of merchandise, net trade contributed negatively to the GDP growth against the background of stronger import-intensive domestic demand.

Moreover, Croatia ended 2017 with a small budgetary surplus just above 0.5% of GDP due to cyclically stronger tax revenue, a positive impact from the tax reform, general spending restraint and capital expenditures under-execution. Stronger HRK and faster nominal GDP growth, combined with one of the strongest fiscal deficit reductions in two years in the CESEE and interest bill cuts have brought about further decline in public debt to about 78% of GDP.

At the same time, bank lending has picked up with Retail loans being the main driver as stronger labor market and consumer sentiment have driven demand for cash loans, while state-subsidized schemes propelled housing loans in the second part of the year. Banks' interest rate fell sharply during 2017 with interest rates on both HRK and FX-loans falling to record lows as a result of further ECB/CNB easing and intensified bank competition.

Corporate lending had a mixed performance as the uncertainty related to the failure of a large Croatian retailer had reduced the appetite for borrowing. Nevertheless, resurgent lending to SME segments was driven by improving business optimism, all time record low interest rates and EU funding.

3. Significant events in the financial year 2017

3.1. Financial performance in brief

In line with expectations, in 2017 key revenue drivers continued to perform, mainly driven by the ability to generate stable loan portfolio income enhanced by strong new disbursements with well targeted product mix and continuous improvements in the customer deposits structure and pricing. With the focus on changing the loan portfolio mix towards unsecured lending and small/medium corporates, the Bank in 2017 further increased the share of higher margin products in its target segment of Consumer Finance (36% of loan portfolio) and Corporate/SME (18% of loan portfolio). The strategic reduction in less profitable business segments such as mortgages and public finance was continued.

Profit after tax improved to HRK 229.7 million (2016: HRK 59.7 million) representing a significant 285% yoy increase, and is a result of significant progress in the restructuring of the Bank and the implemented new strategy.

Net interest income improved by 8.3% to HRK 480.5 million (2016: HRK 443.8 million) with an improved NIM at 2.3% (+25bp).

Net fee and commission income decreased by 2.3% to HRK 175.4 million (2016: HRK 179.6 million) as a consequence of Addiko Invest divestment, while on the standalone level the Bank improved its performance by 1.6% as a result of product and customer focus and increased sales performance.

This positive performance is driven by strong new disbursement performance (+31.5% to 2016) and a further shift in business mix towards the strategic target segment of Consumer Finance resulting in HRK +2.3 billion cash loan balance in the loan portfolio (+192.0% to 2016) with a stronger focus on the Corporate/SME portfolio in the future.

On the liabilities' side, the deposits remained the Bank's primary funding source at HRK 15,657 million (2016: HRK 15,499 million) resulting in a strong funding base and liquidity position with more than 73% of funding provided by customer deposits, while at the same time reducing overall pricing of deposits on average by 64bp compared to 2016.

Total operating expenses which were further reduced by HRK 208.54 million (-29.8% from 2016) were highly influenced by one-off effects in 2016 out of which clean-up of legal provisions and rebranding related expenses had the most significant impact.

This development also reflects Bank's strategy to focus on the core business by leasing business wind-down and Addiko Invest divestment, implementation of the restructuring program, the new Target Operating Model and further cost improvement initiatives.

With a strong capital base, an above average Capital Adequacy Ratio and a high Total Capital Ratio of 27.8% (2016: 29.9%), the Bank continues to rank at the very top in terms of the best capitalized banks in Croatia, and, by additionally improving its lending portfolio and asset quality, the Bank has posted a very low and better-than-average non-performing loan ratio of 8.2% (2016: 8.4%), with coverage ratio of 61.6% (2016: 64.1%).

3.2. Addiko brand anniversary

In July 2017, the Addiko brand had its first anniversary. The launch of the Addiko brand marked the start of the business turnaround for the Bank, and the start of its clear focus on strategic business segments, on raising the efficiency of operations and reaffirming the Bank as a strong, stable and system relevant institution in Croatia.

3.3. Customer centricity driving the business

With Addiko Bank dedicated to delivering its straightforward banking promise and providing its customers with high quality service, several key initiatives were introduced in 2017 with a goal of further improving client experiences at every touch point.

The already implemented Sales Force Effectiveness (SFE) program, launched in the Retail segment, has been focusing on three products (cash loans, primary current accounts and packages) and had an immediate positive impact on branch performances and sales with the increase evident in all targeted products.

The End-to-End (E2E) Corporate loan improvement project also delivered tangible results with a significantly faster loan approval process, while the launch of new unprecedented packages for Retail and SME, review of fee structures and advanced client advisory services contributed to the delivery of the straightforward banking and the new disbursements growth of 27% yoy.

By forming a special new Customer Experience Committee the Bank additionally improved the customer-bank relationship fostering at the same time customer loyalty. The results of the customer-centric approach and growing customer satisfaction were acknowledged by the fact that Addiko Bank became the first ever bank in Croatia to receive a Customer's Friend Certificate issued by an international certification association following an in-depth analysis of the Bank's reputation, user experiences, communication and the trust factor.

3.4. Leading innovation with improved digital capabilities

One of the big challenges the banking industry faces is the rapid pace of change driven by technology advancements and regulatory requirements. Systematic digitalization is one of the Bank's strategic focus points. This is why Addiko Bank continuously invests into enhancing its digital capabilities, in improving its technological infrastructure and in development of new digital platforms, thus ensuring greater customer convenience, efficiency and operating excellence.

Addiko Bank continues to digitally transform itself and is committed to make banking more convenient for its customers by focusing on essentials, delivering efficiency and communicating simply. For this reason, 'Addiko Chat Banking' a unique Viber-based payments service was launched and Addiko Bank became the first commercial bank in Croatia and one of the first in the world to enable payment services using one of globally most popular communication platforms. At the same time, 'Addiko Express' digital branch was opened. Again Addiko Bank is the only bank in the market to provide such service. Mobile and Internet banking platforms were revamped ensuring fast, convenient, modern and straightforward banking service. In addition the digital SME Strategy will be launched in 2018.

3.5. Organizational structure supports growth

2017 was the first full year where the turnaround was visible not only in the significant increase of business volumes, which led to a strong increase of operating profit, but also in the raised productivity and efficiency levels. Such positive developments prove that the Bank is well positioned to develop its business further in a competitive market environment.

The implemented initiatives support the growth-based business model and corporate strategic goals based on the sustainable revenue growth, efficient End-to-End processes and prudent standardized risk management, all of which together embody Addiko Group's 'Six Countries – One Winning Team' approach.

Essential to the accomplishment of the goals is the implementation of the Target Operating Model (TOM) that streamlines processes and enables quality steering, better cost management, improves the overall efficiency across the organization ultimately ensuring a higher level of service quality.

3.6. Sale of non-core assets

In line with the strategy of focusing on its core banking business the Bank successfully sold Addiko Invest d.d., and the Bank's Asset Management and Brokerage business, to one of the leading independent investment companies in the region. The Bank is fully committed to continue with the exit strategy for leasing business (Hypo Alpe-Adria-Leasing d.o.o. – u likvidaciji), following the successful significant reduction of the finance and operating leasing portfolio during 2017.

4. Financial development of the Bank

4.1. Overview

In the 2017 financial year, Addiko Bank continued with the strong business development in core business segments of Retail and SME, improving financial performance and key business indicators, as well as the perception of the Addiko brand within the target stakeholder groups.

At the same time, by strengthening the local funding base and improving the quality of assets the Bank was able to repay the refinancing lines to Addiko Group, thereby further alleviating the risk on the balance sheet and increasing profitability.

The 2017 results clearly reflect a positive change in the business strategy, strong business development, prudent risk management and achieved costs and process optimization, backed by the sale of non-core banking assets, which resulted with the Bank having strong foundations for sustainable profitability growth over the coming years.

4.2. Analysis of profit or loss statement

HRK Mio

	Group and Bank 2017	Group 2016	Bank 2016
Net interest income	480.5	443.8	442.4
Net fee and commission income	175.4	179.6	172.7
Net trading gain	72.5	175.2	175.8
Net foreign exchange differences	(19.8)	(65.5)	(67.2)
Other operating income	52.8	83.7	33.6
Operating income	**761.4**	**816.8**	**757.3**
Personnel expenses	(228.1)	(245.6)	(234.9)
Depreciation	(21.2)	(76.0)	(36.8)
Amortization	(8.0)	(11.0)	(10.8)
Other operating expenses	(233.7)	(366.9)	(359.9)
Operating expenses	**(491.0)**	**(699.5)**	**(642.4)**
Impairment losses	(111.9)	(106.3)	(104.5)
Result on conversion of CHF loans	(5.3)	68.9	69.0
Profit before tax	**153.2**	**79.9**	**79.4**
Income tax	76.5	(20.3)	(20.2)
Net profit for the year	**229.7**	**59.6**	**59.2**

Net interest income increased to HRK 480.5 million, compared to HRK 443.8 million in 2016. This positive development is supported by the strong growth in high margin consumer loans as well as lower interest rates for customer deposits, which is a consequence of the Bank's strategic repositioning. Compared to the prior-year period, the underlying **net interest margin** increased up to 2.3% (2016: 2.0%), reflecting the Bank's dedicated focus on risk-adjusted pricing and optimizing the liability structure.

Net fee and commission income amounted to HRK 175.4 million (2016: HRK 179.6 million) which represents 2.3% decrease on consolidated level as a direct consequence of Addiko Invest divestment. On the standalone level the Bank improved its performance by 1.6% mainly due to higher income from the card business and payment transactions, and supported by the initiatives launched at the end of 2016 and strong new disbursements.

The **other operating result** (including trading and financial, as well as other operating income) showed a positive result of HRK 105.5 million (2016: HRK 193.4 million). Last year's result was highly driven by positive one-off effect i.e. the sale of equity instruments (Visa shares) with a gain of HRK 64 million.

Operating expenses (staff, material and services, rent and lease, marketing and other administrative expenses) decreased from HRK 612.5 million in 2016 to HRK 461.8 million in 2017, with the result influenced by a number of one-off effects out of which clean-up of legal provisions and rebranding related expenses have had the most significant impact.

Without these one-off effects Addiko Bank was able to reduce operating expenses in the amount of HRK 12.7 million which is based on a disciplined and firm cost management and implementation of the new Target Operating Model (TOM), all with the goal of establishing a lean, efficient, more agile and integrated organization.

Depreciation and amortization of fixed assets decreased to HRK 29.2 million from HRK 87.0 million in the previous year. This development reflects the Bank's strategy to focus on the core business by leasing business wind-down, outsourcing of the ATM network and disposal of other non-core assets in 2017. It was also positively affected by impairments made in 2016.

The development of **impairment or reversal of provisions on loans and receivables** from HRK 106.3 million in 2016 to HRK 111.9 million in 2017 included negative impact of a large Croatian retailer going into default in the first quarter of 2017 which was compensated by release of risk provisions due to strong collection and recovery activities as well as the sale of Retail non-performing portfolios.

Taxes on income amounted to HRK 76.4 million income (2016: HRK 20.3 million expense) as a result of recognition of deferred tax assets on existing tax losses carried forward starting from the year end 2017, based on the successful turnaround process initiated by the new business strategy.

4.3. Analysis of statement of financial position

HRK Mio

	Group and Bank 2017	Group 2016	Bank 2016
Assets			
Cash and balances with Croatian National Bank	4,817.0	3,765.0	3,765.0
Financial assets at fair value through profit or loss, excluding derivatives	33.4	32.2	32.2
Derivative financial assets	7.0	0.6	0.6
Placements with and loans to other banks	472.9	112.5	112.5
Loans and receivables	10,401.4	12,341.2	12,656.9
Available for sale financial assets	4,836.6	4,009.6	4,009.6
Assets acquired in lieu of uncollected receivables	10.4	10.4	10.4
Investment property	6.4	8.9	8.9
Property, plant and equipment	203.9	242.2	242.2
Intangible assets	48.0	35.2	35.2
Non-current assets and disposal groups classified as held for sale	115.0	325.7	8.1
Deferred tax assets	112.3	40.0	45.1
Current tax assets	0.7	0.3	0.3
Other assets	65.5	57.6	57.5
Total assets	**21,130.5**	**20,981.4**	**20,984.5**

Total assets of Addiko Bank increased by HRK 149.1 million (0.7%) to HRK 21,130.5 million (2016: HRK 20,981.4 million).

The cash and cash equivalents increased to HRK 4,817 million (2016: HRK 3,765 million) while available for sale assets increased to HRK 4,837 million (2016: HRK 4,010 million) indicating a strong liquidity position of the Bank that enables the future growth of Bank's loan portfolio.

Net loans and receivables reduced to HRK 10,401 million (2016: HRK 12,341 million) due to the successful implementation of new business strategy and repositioning within the market, thus realizing significant growth of new disbursements in strategic business segments and products, while strategically reducing the low profitable public finance portfolio. In addition, the decrease was also driven by the sale of non-performing Retail portfolios (ongoing asset quality improvement strategy) and a large Croatian retailer going into default.

Tangible assets (including property plant and equipment and repossessed assets) decreased by HRK 40.8 million from HRK 261.5 million in 2016 to HRK 220.7 million in 2017. This decline is mainly due to the decision to focus on the banking business and consequently the sale of non-core assets, which triggered the reclassification of certain assets to non-current assets and disposal groups classified as held for sale.

Intangible assets increased to HRK 48.0 million (2016: HRK 35.2 million) due to the introduction of new e-banking applications.

Tax assets increased to HRK 113.0 million (2016: HRK 40.3 million), including the deferred tax assets recognized on existing taxable losses.

HRK Mio

	Group and Bank 2017	Group 2016	Bank 2016
Equity and liabilities			
Due to other banks	517.7	718.1	718.1
Due to customers	15,657.2	15,498.5	15,514.7
Derivative financial liabilities	1.2	1.8	1.8
Provisions for liabilities and charges	174.1	218.2	218.3
Provision for losses on conversion of CHF loans	6.8	14.9	14.9
Liabilities included in disposal groups classified as held for sale	-	20.5	-
Other liabilities	118.9	123.7	123.8
Subordinated debt	1,793.6	1,803.9	1,803.9
Total liabilities	**18,269.5**	**18,399.6**	**18,395.5**
Share capital	2,558.9	4,993.0	4,993.0
Share premium	-	59.8	59.8
Profit for the year	229.7	59.6	59.2
Retained earnings/(accumulated losses)	0.4	(2,682.5)	(2,673.6)
Reserves	72.0	151.9	150.6
Total equity	**2,861.0**	**2,581.8**	**2,589.0**
Total liabilities and equity	**21,130.5**	**20,981.4**	**20,984.5**

On the liabilities' side, the deposits to customers remained very high at HRK 15,657 million (2016: HRK 15,499 million) resulting in a strong funding base and liquidity position.

Provisions (non-loan portfolio related) decreased to HRK 174.1 million (2016: HRK 218.2 million). Included are provisions for passive legal cases, where a significant clean-up had been achieved in 2017, with the total amount of legal claims strongly decreased, and the coverage was significantly improved. A further decrease of provisions is foreseen for 2018 as settlements are planned in the near future.

The development of equity from HRK 2,582 million in 2016 to HRK 2,861 million in 2017 is mainly the result of profit after tax realized throughout 2017. In order to strengthen the Bank's financial position, simplified share capital decrease had been carried out in 2017 for coverage of losses from previous years which amounted to HRK 2,617 million.

5. Analysis of non-financial key performance indicators

5.1. Market and operations development

The year 2017 was marked by an overall positive financial performance with total income of HRK 761.5 million and strong increase of Net profit to HRK 229.7 million (2016: HRK 59.7 million). As such the Bank is delivering on the straightforward banking promise and successfully reaffirming itself as a key Retail and SME bank.

The result was driven by the significant growth of new disbursements in key business segments, 51% in Retail, with above market average consumer lending growth of 56% reaching HRK 1.1 billion. The SME segment, as a result of its well diversified and granular portfolio, recorded new disbursements growth of 27% as well. An increase of net interest income and net commission income, further reduction of the cost base and very favorable risk costs that were part of improved risk processes, also significantly contributed to the positive year-end result.

The outlined developments reflect the Bank's dedication to: growing its market share in core Retail and SME segments, digital transformation, high-quality asset portfolio management, providing straightforward banking services and ensuring greater customer experience while at the same time increasing customer loyalty and new business.

By raising its productivity and efficiency across the organization and supported by effective cost management, the operational cost base has already been reduced significantly. The Bank will continue to simplify, automate and outsource non-core activities, thus maximizing the performance of its new Target Operating Model, putting itself in a favorable position to develop its business further in 2018 and in years to come.

5.1.1. Primary focus on Retail and SME with strong foothold in Corporate

With a clear business strategy focused on a simpler portfolio of essential products and an improved loan book quality, the Bank has sound foundations for business development. The new organization and segmentation that were introduced and implemented both in Retail and Corporate resulted in growth of key business segments as well as in increased service quality and more efficient operations.

In 2017, **Retail Banking** continued with its focus on consumer lending and providing key core products, while at the same time introducing new innovative digital products and services. Time-to-market and time-to-client were significantly improved, leading to significantly higher volumes and more attractive margins, as well as improved branch productivity. Through optimization of key processes, the Bank dedicated more time and resources to clients ensuring a high quality service.

In 2017 the Bank disbursed HRK 1,099 million of new loans to Retail clients (51% yoy increase), opened 15,565 new current accounts (38% yoy increase), and new 40,325 current account packages (56% yoy increase), issued 2,984 new credit cards (5% yoy increase) and kept its deposits base stable, while adjusting the pricing to market trends which led to a considerable decrease of interest expenses. Stable growth of sales and disbursements was a result of new client acquisition, increase of products used by existing clients and introduction of new straightforward products and services that directly correspond with clients' needs; consumer, consolidation, car, standard mortgage and refinancing loans, with the focus on consumer lending generating a high 57% volume growth in non-purpose loans, thus surpassing initial expectations.

The Small and Medium Enterprises (SME) segment has in 2017 recorded a steady growth with new loan disbursements up by more than 30%, accompanied also with a 20% deposit volume increase, significantly improved time-to-market and time-to-yes. SME will continue to represent the primary focus for the Bank in upcoming years, with **Corporate Banking** maintaining a strong foothold in this highly competitive segment.

The Bank intends to continue investing in its operations, as well as in developing core but modern products and services which directly serve everyday client needs. With the support of committed owners, the main emphasis will be put on fostering synergies and coordination between the organizational units, on making strides forward in terms of customer experience, digitalization, and on increasing the functionality and optimizing the processes which are essential must-haves for a modern bank.

The focus in 2018 will be on serving the real economy, growing the client base, increasing volumes, utilizing cross-selling potential, achieving operating excellence on all levels and generating long-term sustainable and profitable business, with further diversification of the Bank's funding sources and continuation of the self-funded strategy.

5.2. Human Resources management

The Human Resources strategy underpins the cultural transformation of Addiko Bank. The Target Operating Model enables employees at all levels to drive for results via team work and cross-boundary collaboration. Building standardized HR processes in performance, recruitment, talent, learning and leadership development is needed to ensure agility in employee attitudes and capabilities. At the same time by defining clear roles, developing simplified processes and leveraging shared capabilities Addiko Group is building a platform for developing top talent, and attracting specialists and high performers to support the strategy of delivering straightforward banking to our customers.

The performance and talent management frameworks are key processes used to identify, develop, reward and recognize high performance and talented employees. The two processes along with the 'Values and Behaviors' initiative are aimed at fostering a culture change that will enable the Bank's journey to build a great place to work, to become an employer of choice, to attract talents and to offer opportunities for employees to develop their careers.

In 2017, there were many areas of focus in Human Resources, with new training programs piloted in order to establish the base for development programs that will support the development of specific capabilities. Standardization of HR processes continued in the areas of recruitment, onboarding and personnel cost reporting. The 'Values and Behaviors' initiative was developed with the help of the employees and for their benefit, and was launched as part of the upcoming performance cycle. The special 'Nine Leadership Skills' program was internally developed and introduced, encouraging leaders to demonstrate desired leadership behaviors and skills that are important for high-performing matrix organizations.

Several efficiency and rightsizing programs came to a close in 2017. In December 2017 Addiko Bank had 1,034 FTEs.

In the upcoming period the focus will be on integrating 'Values and Behaviors' into daily activities, accelerating the cultural transformation and ensuring process effectiveness in the Target Operating Model. This will require effective talent, leadership and development metrics in place to ensure development of employees' skills and realization of their potential.

5.3. Non-financial reporting

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 further 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 said non-financial report can be found as a part of the consolidated Addiko Group Annual Report.

6. Internal control system for accounting procedures

Addiko Bank has an Internal Control System (ICS) for accounting procedures, in which appropriate structures and processes are defined and implemented throughout the organization. The management in each organizational unit is responsible for implementing Addiko Group-wide policies and procedures. Compliance with Addiko Group policies is monitored as part of the audits performed by internal auditors. The ICS, as part of the Bank's risk management system, has the following general objectives:

- Safeguarding the business and risk strategies as well as Bank's policies;
- Effective and efficient use of all the resources in order to achieve the targeted commercial success;
- Ensuring reliable financial reporting;
- Supporting compliance with all relevant laws, rules and regulations.

Particular objectives with regard to Addiko Bank's accounting procedures are that the ICS ensures that all business transactions are recorded immediately, correctly and in a uniform way for accounting purposes.

In addition, it should ensure that no errors or deliberate actions (fraud) prevent facts from adequately reflecting the company's financial position and performance.

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 behavior of the employees. The Management Board and management team actively and consciously embrace their role of leading by example.

7. Outlook

7.1. Macroeconomic outlook

The Bank sees 2018 GDP growth of 3.0% based on persistent above-trend EU demand, solid consumption, better investment outlook and newly found room for fiscal easing after years of strong consolidation. Private consumption is driven by new HRK 1.1 billion tax cuts, generally faster wage growth due to labor shortage, public wage and minimum wage hikes, bigger pensions, foreign tourist receipts, job creation and foreign remittances. The Bank also expects stronger investments in response to rising firm's profits, lower cost of funding and faster pace of EU funding in support of re-leveraging, price competitiveness gains amid parafiscal burden cuts, and ample replacement capital expenditures needs. While the risks to the baseline are balanced, faster Euro interest rate repricing, idiosyncratic risks around a large Croatian retailer, labor shortages (in tourism and construction), significant corporate de-leveraging needs and bank unfriendly policy-making, including a bigger negative impact of consumer credit market regulation, are the main risks. Upside potential stems from another tourism record, stronger EU funding and FDIs, and are accompanied with fiscal expansion.

The Croatian National Bank (CNB) continues pursuing expansive monetary policy mainly through FX transactions with banks and much less so via repo facility. Despite the ECB's quantitative easing tapering in 2018, the Bank expects the CNB to keep record HRK excess liquidity in its ongoing support to bank lending. Beyond creating billions of HRK out of heavy tourism foreign currency supply, it's expected that CNB enhances repo capacity (size/maturity) as to anchor bank liquidity costs and flatten the HRK yield curve.

In the environment of constantly growing excess interbank liquidity and increased competition, banks maintained their focus on lending activities in local currency with roughly 83% of new disbursements being in HRK. While mandatory reserve cuts also fit into early EMU entry strategy, the CNB is increasingly aware the (global) monetary arsenal has hit limits and should therefore make liquidity provision conditional on real demand, while insisting on firms' investment intentions since household loan market will be hit by party affected by tighter regulation for debt capacity. With floating retail interest rate, sensitivity under increased CNB's scrutiny and pent-up demand for HRK credit, stronger shift to fixed rate HRK lending rests on ample long-term HRK funding via long-term FX swaps, non-deliverable forward instruments, longer repo or interest rate swaps.

From a risk perspective, stronger private-sector external positions, steady FX outlook and low fiscal risk allow the CNB's easing.

It is expected that, at the end of 2017 total assets of the banking sector stayed largely unchanged compared to 2016, around 112% of GDP. In 2018, the Bank expects the overall lending activity to be positive on the back of further economic recovery, better labor market outlook, stronger household consumption and record low interest rates, and this thanks to higher competitiveness among banks and lower risk premium. The main downside risks to the Bank's forecast stem from the ongoing non-performing loan (NPL) sales as banks continue to clean balance sheets, given still high level of corporate NPLs around 25%.

Given stronger nominal GDP growth, stronger HRK, lower interest cost and consolidation of agencies holding sovereign debt, Addiko Bank sees public debt cut to 73% of GDP in 2018 and 71% in 2019, which together with brighter reform prospects under EU's stricter fiscal surveillance is a credit positive development. Given a track record of macro and fiscal over performance, lower funding needs in 2018, stronger reform/structural adjustment outlook and the overall risk profile under the aforementioned EU's stricter fiscal surveillance and accelerated ERM II bid process, as well as viable restructuring of a large Croatian retailer, Addiko Bank expects the main rating agencies to raise Croatia's sovereign credit ratings.

7.2. Addiko's strategic goals for the upcoming period

Addiko Bank delivered strong results in 2017 in all core business areas, improving in the process the service quality, End-to-End processes, efficiency and business generation. As a result with a HRK 229.7 million profit the Bank achieved the best year-end result in the past five years and delivered on its straightforward banking promise.

Having a clean portfolio, rich and stable funding and an industry leading strong capital base, the Bank has strong foundations to continue its business growth in future years to come, which is supported by the positive macroeconomic developments and outlook.

The Bank will continue with the implementation of its strategy and targeted initiatives:

- Growing market share in core Retail and SME sectors by focusing on selected profitable sectors such as consumer finance;
- Efficiency optimization of Bank's overall strong funding structure, while focusing on strengthening of the primary funds and term structure quality;
- Continued investment in innovation and the development of straightforward digital offerings;
- Further reduction of the NPL portfolio supported by prudent risk management and strong collection and work-out processes;
- Implementation of the Target Operating Model with better cost management which improves overall efficiency across the organization and ultimately ensures a higher level of service quality.

Addiko Bank d.d. Zagreb

Mario Žižek, President of the Management Board	Jasna Širola, Member of the Management Board	Ivan Jandrić, Member of the Management Board	Dubravko-Ante Mlikotić, Member of the Management Board	Joško Mihić, Advisor to the Management Board

Responsibility for the Financial Statements

Pursuant to the Croatian Accounting Law in force, 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 results of the Addiko Bank d.d. Zagreb ('the Bank') and its subsidiaries (together 'the Group') for the year.

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

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 and the Group 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 the Group 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

These financial statements were authorized for issue by the Management Board on 27 February 2018 and were signed on its behalf as follows:

Mario Žižek, President of the Management Board	Jasna Širola, Member of the Management Board	Ivan Jandrić, Member of the Management Board	Dubravko-Ante Mlikotić, Member of the Management Board	Joško Mihić, Advisor to the Management Board

Deloitte.

Deloitte d.o.o.
ZagrebTower
Radnička cesta 80
10 000 Zagreb
Croatia
TAX ID: 11686457780

Tel: +385 (0) 1 2351 900
Fax: +385 (0) 1 2351 999
www.deloitte.com/hr

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Addiko Bank d.d.

Report on the Audit of the Separate and Consolidated Financial Statements

Opinion

We have audited the separate and consolidated financial statements of Addiko Bank d.d. and its subsidiaries (the Group), which comprise the separate and consolidated statement of financial position as at 31 December 2017, separate and consolidated statement of profit or loss and the separate and consolidated statement of other comprehensive income, the separate and consolidated statement of changes in equity and the separate and consolidated statement of cash flows for the year then ended, and notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements present fairly, in all material respects, the separate and consolidated financial position of the Group as at 31 December 2017, and its separate and consolidated financial performance and its separate and consolidated 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 Separate and Consolidated Financial Statements section of our report. We are independent of the Group 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.

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Separate and Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Key Audit Matter	Impairment losses on loans to customers

Refer to the Note 2 of the financial statements for the accounting policies and to Notes 12 and 18 to the separate and consolidated financial statements on pages 89 and 97 respectively.

Impairment losses on loans to customers was HRK 1,165 million as at 31 December 2017 that represented 5.5% of the total assets. Impairment losses on loans is considered to be the most significant matter as the assessment process is complex and requires a significant Management judgment and use of subjective assumptions.

Recoverability of a loan depends on the credit risk related to that loan. When there is objective evidence that a loan might not be recovered in full or in accordance with the contractual terms, i.e. when there is significant doubt or evidence on breaches of interest payments or repayment of principal, the credit risk and the valuation of that loan is individually assessed to determine a specific provision. The Management applies judgement in estimating the inputs it considers relevant for the purpose of calculating impairment losses, which include, but are not limited to the financial position of the customer, the period of realization and the value of the collateral as of the date of the projected realisation, the expected cash flows as well as current local and global economic conditions.

The Bank also recognizes a provision for possible latent losses not yet identified (collective provisions) at a level deemed appropriate and estimated by the Management taking into account movements within the credit grades and historic loan loss rates.

How our audit addressed the key audit matter

The Bank recognizes both collective and specific impairment losses on loans to customers, in accordance with the statutory accounting requirements for banks in Croatia and Croatian National Bank's Decision on the classification of placements and off-balance sheet liabilities of credit institutions (Official Gazzette no. 41/14, 28/17) ("CNB's Decision").

Our audit procedures were focused on and included the following:

Specific Risk Provisions:

- During the audit we gained understanding of the Bank's provisioning process and considered the adequacy of Bank's policies, procedures, employee's responsibilities as well as the controls implemented by the Bank over the process so that we could tailor our audit procedures to reflect the risks associated with the specific impairment losses on loans to customers.
- Testing of the internal controls was performed over:
    - Regular client rating process
    - Monitoring processes
    - Specific risk loan provision calculation review and approval of the impairment evaluation results

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Separate and Consolidated Financial Statements (continued)

Key Audit Matters (continued)

How our audit addressed the key audit matter (continued)
• When determining sample for our substantive procedures we analyzed the population by using the data analytics tool in order to identify our focus areas. We have selected a sample of loans considering, but not limited to, credit risk group and status of loans, days past due and likelihood of default. For sampled loans we performed test of details to assess: ○ Loan classification and check if there are possible impairment indicators, which would suggest that some performing loans should be designated as non-performing and require specific provision in accordance with CNB Decision and International Accounting Standard 39 - Financial Instruments: Recognition and Measurement requirements; ○ Specific provision calculation and Management's assumptions on recoverability of the carrying amount of the loans, value of collaterals and estimates of further loan repayment and recovery. We have also assessed whether the assumptions for certain parameters like realization period, effective interest rate used in the calculation of discounted cash flows, haircuts and other are reasonable and in line with the CNB Decision. Portfolio Risk Provisions: • We gained understanding of the Bank's provisioning process, methodology and parameters used in the calculation of collective impairment losses on loans in order to evaluate overall adequacy of Portfolio Risk Provisions; • We have checked completeness and accuracy of the breakdown of Portfolio Risk Provisions; • We have recalculated Management's calculation to assess that the Bank maintained a minimum of 0.80% of Portfolio Risk Provisions on total loan exposure for performing loans (class A as per CNB's Decision).

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Separate and Consolidated 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 separate and consolidated financial statements and our auditor's report.

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

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. With respect to the Management Report 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 and 24 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 separate and consolidated financial statements for the year,

2) Management Report for the year 2017 has been prepared, in all material respects, in accordance with Articles 21 and 24 of the Accounting Act.

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

Responsibilities of Management for the Separate and Consolidated Financial Statements

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

In preparing the separate and consolidated financial statements, Management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Bank and the Group or to cease operations, or has no realistic alternative but to do so.

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

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Separate and Consolidated Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Separate and Consolidated Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements (continued)

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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.

Report on Other Legal and Regulatory Requirements

Other reporting obligations as required by the Croatian National Bank

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 separate and consolidated financial statements on pages 177 to 190, which comprise the separate and consolidated balance sheet as at 31 December 2017, the separate and consolidated income statement, the separate and consolidated statement of changes in equity and the separate and consolidated statement of cash flow for the year then ended, together with reconciliation to the separate and consolidated financial statements. These forms and the accompanying reconciliation to the separate and consolidated financial information are the responsibility of the Bank's Management and, do not represent components of the separate and consolidated financial statements prepared in accordance with statutory accounting requirements for banks in Croatia, which are set out on pages 28 to 176, but rather a requirement specified by the Decision. The financial information provided in those forms has been derived from the separate and consolidated financial statements.

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on Other Legal and Regulatory Requirements (continued)

Other reporting obligations as required by Regulation (EU) No. 537/2014 of the European Parliament and the Council and the Audit Act

We were appointed as the statutory auditor of the Bank by the shareholder on General Assembly Meeting held on 15 September 2017 to perform audit of accompanying separate and consolidated financial statements. Our total uninterrupted engagement has lasted 4 years and covers period 31 December 2014 to 31 December 2017.

We confirm that:

- our audit opinion on the separate and consolidated accompanying financial statements is consistent with the additional report issued to the Audit Committee of the Bank on 7 March 2018 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 2017:

- audit of IFRS and AI Lake Group reporting package,
- audit of regulatory financial statements for the purposes of CNB,
- IFRS 9 - *Financial Instruments* structured review and implementation review of classification and measurement,
- statutory review and assessment of compliance of the general information technology controls and
- other assurance services related to simplified share capital decrease.

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

Juraj Moravek
Member of the Management Board

Sanja Petračić
Certified auditor

Deloitte d.o.o.

7 March 2018

Radnička cesta 80,

10 000 Zagreb,

Croatia

Consolidated Statement of Profit or Loss

For the year ended 31 December 2017

	Note	Unaudited* 2017 EUR'000	Unaudited* 2016 EUR '000	2017 HRK '000	2016 HRK '000
Interest and similar income	4	99,110	111,304	744,678	841,214
Interest expense and similar charges	5	(35,154)	(52,583)	(264,133)	(397,411)
Net interest income		**63,956**	**58,721**	**480,545**	**443,803**
Fee and commission income	6	28,404	30,170	213,417	228,021
Fee and commission expense	7	(5,053)	(6,405)	(37,969)	(48,410)
Net fee and commission income		**23,351**	**23,765**	**175,448**	**179,611**
Net trading gain	8	9,655	23,175	72,542	175,151
Net foreign exchange differences	9	(2,641)	(8,662)	(19,841)	(65,463)
Other operating income	10	7,021	11,072	52,759	83,679
Total income		**101,342**	**108,071**	**761,453**	**816,781**
Personnel expenses	11	(30,353)	(32,501)	(228,064)	(245,635)
Depreciation	22,23	(2,828)	(10,055)	(21,247)	(75,995)
Amortization	24	(1,066)	(1,451)	(8,012)	(10,971)
Impairment losses	12	(14,898)	(14,069)	(111,939)	(106,334)
Result on conversion of CHF loans	18,29	(708)	9,125	(5,320)	68,962
Other operating expenses	13	(31,099)	(48,546)	(233,667)	(366,890)
Total expenses		**(80,952)**	**(97,497)**	**(608,249)**	**(736,863)**
Profit before tax		**20,390**	**10,574**	**153,204**	**79,918**
Income tax	14	10,175	(2,684)	76,450	(20,287)
Net profit for the year		**30,565**	**7,890**	**229,654**	**59,631**
Attributable to:					
Owners of the Group		30,565	7,890	229,654	59,631

* Consolidated 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).

Notes on pages 37 to 131 form an integral part of these financial statements.

Consolidated Statement of Other Comprehensive Income

For the year ended 31 December 2017

	Unaudited* 2017 EUR '000	Unaudited* 2016 EUR '000	2017 HRK '000	2016 HRK '000
Net profit for the year	**30,565**	**7,890**	**229,654**	**59,631**
Other comprehensive (loss)/income				
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:				
Net unrealized gain for the year from financial assets available for sale	8,324	2,095	62,547	15,832
Recycled to profit or loss	(1,336)	(8,519)	(10,035)	(64,386)
Income tax	(1,258)	1,312	(9,452)	9,917
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:	**5,730**	**(5,112)**	**43,060**	**(38,637)**
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:				
Loss on revaluation of properties	(181)	(69)	(1,358)	(523)
Income tax	32	67	244	504
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods:	**(149)**	**(2)**	**(1,114)**	**(19)**
Total net other comprehensive income/(loss) for the year	**5,581**	**(5,114)**	**41,946**	**(38,656)**
Total comprehensive income for the year	**36,146**	**2,776**	**271,600**	**20,975**
Attributable to:				
Owners of the Group	36,146	2,776	271,600	20,975

* Consolidated 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).

Notes on pages 37 to 131 form an integral part of these financial statements.

Signed on behalf of Addiko Bank d.d. Zagreb on 27 February 2018

Mario Žižek, President of the Management Board	Jasna Širola, Member of the Management Board	Ivan Jandrić, Member of the Management Board	Dubravko-Ante Mlikotić, Member of the Management Board	Joško Mihić, Advisor to the Management Board

Consolidated Statement of Financial Position

As at 31 December 2017

	Note	Unaudited* 2017 EUR '000	Unaudited* 2016 EUR '000	2017 HRK '000	2016 HRK '000
Assets					
Cash and balances with Croatian National Bank	15	641,105	498,158	4,817,039	3,764,974
Financial assets at fair value through profit or loss, excluding derivatives	16	4,451	4,255	33,447	32,157
Derivative financial assets	36	938	81	7,047	614
Placements with and loans to other banks	17	62,940	14,891	472,908	112,544
Loans and receivables	18	1,384,328	1,632,914	10,401,352	12,341,213
Available for sale financial assets	19	643,708	530,524	4,836,593	4,009,587
Assets acquired in lieu of uncollected receivables	20	1,380	1,380	10,369	10,428
Investment property	22	857	1,181	6,438	8,929
Property, plant and equipment	23	27,132	32,052	203,858	242,244
Intangible assets	24	6,392	4,659	48,026	35,213
Non-current assets and disposal groups classified as held for sale	25	15,312	43,098	115,047	325,729
Deferred tax assets	14	14,952	5,289	112,347	39,975
Current tax assets	14	88	42	664	315
Other assets	21	8,699	7,606	65,364	57,484
Total assets		**2,812,282**	**2,776,130**	**21,130,499**	**20,981,406**

Notes on pages 37 to 131 form an integral part of these financial statements.

Consolidated Statement of Financial Position (continued)
As at 31 December 2017

	Note	Unaudited* 2017 EUR '000	Unaudited* 2016 EUR '000	2017 HRK '000	2016 HRK '000
Liabilities					
Due to other banks	26	68,898	95,016	517,674	718,109
Due to customers	27	2,083,829	2,050,663	15,657,157	15,498,471
Derivative financial liabilities	36	159	243	1,198	1,837
Provisions for liabilities and charges	28	23,173	28,873	174,112	218,214
Provision for losses on conversion of CHF loans	29	907	1,975	6,815	14,930
Liabilities included in disposal groups classified as held for sale	25	-	2,709	-	20,473
Other liabilities	30	15,827	16,369	118,920	123,717
Subordinated debt	31	238,715	238,680	1,793,628	1,803,896
Total liabilities		**2,431,508**	**2,434,528**	**18,269,504**	**18,399,647**
Equity					
Share capital	32	340,567	660,639	2,558,898	4,992,972
Share premium		-	7,908	-	59,769
Profit for the year		30,565	7,890	229,654	59,631
Retained earnings/(accumulated losses)		57	(354,929)	427	(2,682,480)
Reserves	33	9,585	20,094	72,016	151,867
Total equity		**380,774**	**341,602**	**2,860,995**	**2,581,759**
Total liabilities and equity		**2,812,282**	**2,776,130**	**21,130,499**	**20,981,406**
Commitments and contingent liabilities	34	255,965	252,462	1,923,234	1,908,055

* Consolidated 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).

Notes on pages 37 to 131 form an integral part of these financial statements.

Signed on behalf of Addiko Bank d.d. Zagreb on 27 February 2018

Mario Žižek, President of the Management Board	Jasna Širola, Member of the Management Board	Ivan Jandrić, Member of the Management Board	Dubravko-Ante Mlikotić, Member of the Management Board	Joško Mihić, Advisor to the Management Board

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

HRK'000

	Share capital	Share premium	Legal and other reserves	Revaluation reserve	Fair value reserve	Accumulated (losses)/ profit	Total
Balance at 1 January 2016	**4,992,972**	**59,769**	**126,851**	**16,390**	**47,082**	**(2,677,575)**	**2,565,489**
Profit for the year						59,631	59,631
Other comprehensive (loss) for the year, net of income tax	-	-	-	(19)	(38,637)	-	(38,656)
Total comprehensive income for the year	-	-	-	*(19)*	*(38,637)*	*59,631*	*20,975*
Distribution of profit for the year 2015:							
Legal reserves	-	-	200	-	-	(200)	-
Other changes	-	-	-	-	-	(4,705)	(4,705)
Balance at 31 December 2016	**4,992,972**	**59,769**	**127,051**	**16,371**	**8,445**	**(2,622,849)**	**2,581,759**
Profit for the year	-	-	-	-	-	229,654	229,654
Other comprehensive income for the year, net of income tax	-	-	-	(1,114)	43,060	-	41,946
Total comprehensive income for the year	-	-	-	*(1,114)*	*43,060*	*229,654*	*271,600*
Distribution of profit for the year 2016:							
Legal reserves	-	-	2,962	-	-	(2,962)	-
Cover of losses from prior years	(2,434,074)	(59,769)	(123,509)	-	-	2,617,352	-
Other changes	-	-	(1,250)	-	-	8,886	7,636
Balance at 31 December 2017	**2,558,898**	**-**	**5,254**	**15,257**	**51,505**	**230,081**	**2,860,995**

Notes on pages 37 to 131 form an integral part of these financial statements.

Consolidated Statement of Cash Flows
For the year ended 31 December 2017

HRK'000

	Note	2017	2016
Cash flow from operating activities:			
Net profit for the year		229,654	59,631
Adjustments for:			
Income tax recognized in statement of profit or loss		(76,450)	20,287
Interest expense recognized in statement of profit or loss		264,133	396,638
Interest income recognized in statement of profit or loss		(744,678)	(841,214)
Depreciation and amortization		29,259	86,966
Gain on disposal of property, plant and equipment		(27,724)	(3,903)
Fair value adjustment of financial assets at fair value through profit or loss, excluding derivatives		(299)	(764)
Fair value (gain)/loss from derivative financial instruments		(5,712)	1,166
Net foreign exchange differences		17,730	67,152
Dividend income		(9,978)	(22)
Provisions for liabilities and charges		25,490	(1,447,628)
Impairment of assets		111,939	104,832
Operating cash flow before working capital movements		**(186,636)**	**(1,556,859)**
(Increase)/decrease in balances with Croatian National Bank		(53,724)	536,049
Increase in placements with other banks		(324)	(35,776)
Decrease in loans and receivables		1,925,383	4,215,520
(Increase)/decrease in other assets		(8,320)	132,024
Decrease in due to other banks		(21,884)	(2,021,587)
Decrease in term deposits		(1,643,603)	(1,758,249)
Increase in demand deposits		1,917,252	1,498,196
Decrease in provisions for liabilities and charges		(57,426)	-
Decrease in other liabilities		(9,383)	(105,142)
Interest paid		(313,425)	(424,838)
Interest received		755,530	861,540
Income taxes paid		(535)	(691)
Net cash from operating activities		**2,302,905**	**1,340,187**
Cash flows from investing activities:			
Dividends received		9,978	22
Increase in financial assets at fair value through profit or loss		(1,431)	(22,577)
Increase in available for sale financial assets		(904,348)	(1,199,610)
Decrease in assets held for sale		25,293	-
Increase in assets acquired in lieu of uncollected receivables		(506)	-
(Increase)/decrease of property, plant and equipment and investment property		(11,728)	153,047
Increase of intangible assets		(21,875)	(14,794)
Net cash from investing activities		**(904,617)**	**(1,083,912)**
Cash flows from financing activities:			
Decrease in subordinated debt		(110)	-
Decrease in borrowings		(16,737)	(470,668)
Net cash from financing activities		**(16,847)**	**(470,668)**
Increase in cash and cash equivalents		**1,381,441**	**(214,393)**
Cash and cash equivalents at the beginning of the year		2,573,189	2,823,363
Effects of exchange rate changes on the balance of cash held in foreign currencies		(34,234)	(35,781)
Cash and cash equivalents at the end of the year	**38**	**3,920,396**	**2,573,189**

Notes on pages 37 to 131 form an integral part of these financial statements.

Separate Statement of Profit or Loss
For the year ended 31 December 2017

	Note	Unaudited* 2017 EUR '000	Unaudited* 2016 EUR '000	2017 HRK '000	2016 HRK '000
Interest and similar income	4	99,110	111,139	744,678	839,968
Interest expense and similar charges	5	(35,154)	(52,601)	(264,133)	(397,550)
Net interest income		**63,956**	**58,538**	**480,545**	**442,418**
Fee and commission income	6	28,404	29,023	213,417	219,346
Fee and commission expense	7	(5,053)	(6,176)	(37,969)	(46,676)
Net fee and commission income		**23,351**	**22,847**	**175,448**	**172,670**
Net trading gain	8	9,655	23,265	72,542	175,835
Net foreign exchange differences	9	(2,641)	(8,885)	(19,841)	(67,152)
Other operating income	10	7,021	4,443	52,759	33,582
Total income		**101,342**	**100,208**	**761,453**	**757,353**
Personnel expenses	11	(30,353)	(31,082)	(228,064)	(234,911)
Depreciation	22,23	(2,828)	(4,873)	(21,247)	(36,830)
Amortization	24	(1,066)	(1,431)	(8,012)	(10,812)
Impairment losses	12	(14,898)	(13,830)	(111,939)	(104,524)
Result on conversion of CHF loans	18,29	(708)	9,125	(5,320)	68,962
Other operating expenses	13	(31,099)	(47,613)	(233,667)	(359,853)
Total expenses		**(80,952)**	**(89,704)**	**(608,249)**	**(677,968)**
Profit before tax		**20,390**	**10,504**	**153,204**	**79,385**
Income tax	14	10,175	(2,668)	76,450	(20,166)
Net profit for the year		**30,565**	**7,836**	**229,654**	**59,219**

Notes on pages 37 to 131 form an integral part of these financial statements.

Separate Statement of Other Comprehensive Income
For the year ended 31 December 2017

	Unaudited* 2017 EUR '000	Unaudited* 2016 EUR '000	2017 HRK '000	2016 HRK '000
Net profit for the year	**30,565**	**7,836**	**229,654**	**59,219**
Other comprehensive income/(loss)				
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:				
Net unrealized gain for the year from financial assets available for sale	8,324	2,095	62,547	15,832
Recycled to profit or loss	(1,336)	(8,519)	(10,035)	(64,386)
Income tax	(1,258)	1,312	(9,452)	9,917
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:	**5,730**	**(5,112)**	**43,060**	**(38,637)**
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:				
Loss on revaluation of properties	(181)	(69)	(1,358)	(523)
Income tax	32	67	244	504
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods:	**(149)**	**(2)**	**(1,114)**	**(19)**
Total net other comprehensive income/(loss) for the year	**5,581**	**(5,114)**	**41,946**	**(38,656)**
Total comprehensive profit for the year	**36,146**	**2,722**	**271,600**	**20,563**

* 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).

Notes on pages 37 to 131 form an integral part of these financial statements.

Signed on behalf of Addiko Bank d.d. Zagreb on 27 February 2018:

Mario Žižek, President of the Management Board	Jasna Širola, Member of the Management Board	Ivan Jandrić, Member of the Management Board	Dubravko-Ante Mlikotić, Member of the Management Board	Joško Mihić, Advisor to the Management Board

Separate Statement of Financial Position

As at 31 December 2017

	Note	Unaudited* 2017 EUR '000	Unaudited* 2016 EUR '000	2017 HRK '000	2016 HRK '000
Assets					
Cash and balances with Croatian National Bank	15	641,105	498,158	4,817,039	3,764,974
Financial assets at fair value through profit or loss, excluding derivatives	16	4,451	4,255	33,447	32,157
Derivative financial assets	36	938	81	7,047	614
Placements with and loans to other banks	17	62,940	14,891	472,908	112,544
Loans and receivables	18	1,384,328	1,674,678	10,401,352	12,656,860
Available for sale financial assets	19	643,708	530,524	4,836,593	4,009,587
Assets acquired in lieu of uncollected receivables	20	1,380	1,380	10,369	10,428
Investment property	22	857	1,181	6,438	8,929
Property, plant and equipment	23	27,132	32,052	203,858	242,244
Intangible assets	24	6,392	4,659	48,026	35,213
Non-current assets and disposal groups classified as held for sale	25	15,312	1,067	115,047	8,063
Deferred tax assets	14	14,952	5,968	112,347	45,105
Current tax assets	14	88	42	664	315
Other assets	21	8,699	7,606	65,364	57,484
Total assets		**2,812,282**	**2,776,542**	**21,130,499**	**20,984,517**

Notes on pages 37 to 131 form an integral part of these financial statements.

Separate Statement of Financial Position (continued)

As at 31 December 2017

	Note	Unaudited* 2017 EUR '000	Unaudited* 2016 EUR '000	2017 HRK '000	2016 HRK '000
Liabilities					
Due to other banks	26	68,898	95,016	517,674	718,109
Due to customers	27	2,083,829	2,052,815	15,657,157	15,514,731
Derivative financial liabilities	36	159	243	1,198	1,837
Provisions for liabilities and charges	28	23,173	28,878	174,112	218,255
Provision for losses on conversion of CHF loans	29	907	1,975	6,815	14,930
Other liabilities	30	15,827	16,379	118,920	123,791
Subordinated debt	31	238,715	238,680	1,793,628	1,803,896
Total liabilities		**2,431,508**	**2,433,986**	**18,269,504**	**18,395,549**
Equity					
Share capital	32	340,567	660,639	2,558,898	4,992,972
Share premium		-	7,908	-	59,769
Profit for the year		30,565	7,836	229,654	59,219
Retained earnings/(accumulated losses)		57	(353,756)	427	(2,673,609)
Reserves	33	9,585	19,929	72,016	150,617
Total equity		**380,774**	**342,556**	**2,860,995**	**2,588,968**
Total liabilities and equity		**2,812,282**	**2,776,542**	**21,130,499**	**20,984,517**
Commitments and contingent liabilities	34	255,965	253,129	1,923,234	1,913,096

* 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).

Notes on pages 37 to 131 form an integral part of these financial statements.

Signed on behalf of Addiko Bank d.d. Zagreb on 27 February 2018

Mario Žižek, President of the Management Board	Jasna Širola, Member of the Management Board	Ivan Jandrić, Member of the Management Board	Dubravko-Ante Mlikotić, Member of the Management Board	Joško Mihić, Advisor to the Management Board

Separate Statement of Changes in Equity

For the year ended 31 December 2017

HRK'000

	Share capital	Share premium	Legal and other reserves	Revaluation reserve	Fair value reserve	Accumulated (losses)/ profit	Total
Balance at 1 January 2016	**4,992,972**	**59,769**	**125,801**	**16,390**	**47,082**	**(2,673,995)**	**2,568,019**
Profit for the year	-	-	-	-	-	59,219	59,219
Other comprehensive income/(loss) for the year, net of income tax	-	-	-	(19)	(38,637)	-	(38,656)
Total comprehensive (loss) / income for the year	-	-	-	(19)	(38,637)	59,219	20,563
Other changes	-	-	-	-	-	386	386
Balance at 31 December 2016	**4,992,972**	**59,769**	**125,801**	**16,371**	**8,445**	**(2,614,390)**	**2,588,968**
Profit for the year	-	-	-	-	-	229,654	229,654
Other comprehensive (loss)/ income for the year, net of income tax	-	-	-	(1,114)	43,060	-	41,946
Total comprehensive income/(loss) for the year	-	-	-	(1,114)	43,060	229,654	271,600
Distribution of profit for the year 2016:							
Legal reserves	-	-	2,962	-	-	(2,962)	-
Cover of losses from prior years	(2,434,074)	(59,769)	(123,509)	-	-	2,617,352	-
Other changes	-	-	-	-	-	427	427
Balance at 31 December 2017	**2,558,898**	**-**	**5,254**	**15,257**	**51,505**	**230,081**	**2,860,995**

Notes on pages 37 to 131 form an integral part of these financial statements.

Separate Statement of Cash Flows

For the year ended 31 December 2017

HRK'000

	Note	2017	2016
Cash flow from operating activities:			
Net profit for the year		229,654	59,219
Adjustments for:			
Income tax recognized in statement of profit or loss		(76,450)	20,166
Interest expense recognized in statement of profit or loss		264,133	396,777
Interest income recognized in statement of profit or loss		(744,678)	(839,968)
Depreciation and amortization		29,259	47,642
Gain on disposal of assets		(27,724)	(3,903)
Fair value adjustment of financial assets at fair value through profit or loss, excluding derivatives		(299)	(764)
Fair value (gain)/loss from derivative financial instruments		(5,712)	1,166
Net foreign exchange differences		17,730	67,151
Dividend income		(9,978)	(22)
Provisions for liabilities and charges		25,490	(1,451,150)
Impairment of assets		111,939	103,021
Operating cash flow before working capital movements		**(186,636)**	**(1,600,665)**
(Increase)/decrease in balances with Croatian National Bank		(53,724)	536,049
Increase in placements with other banks		(324)	(35,646)
Decrease in loans and receivables		1,925,383	4,347,201
(Increase)/decrease in other assets		(8,320)	99,525
Decrease in due to other banks		(21,884)	(2,021,587)
Decrease in term deposits		(1,643,603)	(1,764,656)
Increase in demand deposits		1,917,252	1,487,218
Decrease in provisions for liabilities and charges		(57,426)	-
Decrease in other liabilities		(9,383)	(102,492)
Interest paid		(313,425)	(424,977)
Interest received		755,530	860,294
Income taxes paid		(535)	-
Net cash from operating activities		**2,302,905**	**1,380,264**
Cash flows from investing activities:			
Dividends received		9,978	22
Increase in financial assets at fair value through profit or loss		(1,431)	(22,577)
Increase in available for sale financial assets		(904,348)	(1,199,610)
Decrease in assets held for sale		25,293	-
Increase in assets acquired in lieu of uncollected receivables		(506)	-
(Increase)/decrease of property, plant and equipment and investment property		(11,728)	112,934
Increase of intangible assets		(21,875)	(14,758)
Net cash from financing activities		**(904,617)**	**(1,123,989)**
Cash flows from financing activities:			
Decrease in subordinated debt		(110)	-
Decrease in borrowings		(16,737)	(470,668)
Net cash from financing activities		**(16,847)**	**(470,668)**
Increase/(decrease) in cash and cash equivalents		**1,381,441**	**(214,393)**
Cash and cash equivalents at the beginning of the year		2,573,189	2,823,363
Effects of exchange rate changes on the balance of cash held in foreign currencies		(34,234)	(35,781)
Cash and cash equivalents at the end of the year	**38**	**3,920,396**	**2,573,189**

Notes on pages 37 to 131 form an integral part of these financial statements.

Notes to the Financial Statements
For the year ended 31 December 2017

1. GENERAL INFORMATION ABOUT THE BANK AND THE GROUP

a) History and Incorporation

Addiko Bank d.d. Zagreb (the Bank), 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.

The sole shareholder of Addiko Bank AG Vienna is AI Lake (Luxembourg) S.à.r.l., owned by Advent International and European Bank for Reconstruction and Development which are consequently the ultimate owners of Addiko Bank d.d. Zagreb.

During 2017 the operations were conducted through the Bank's head office located in Zagreb and through branches organized into regional centers Zagreb and Central Croatia, Dalmatia, Istria and Kvarner and Slavonia and Baranja.

The companies, which are consolidated with the Bank as at 31 December 2017 and 31 December 2016 (the Group), are presented below together with the percentage of ownership:

	Nature of business	2017 % ownership	2016 % ownership
Addiko Invest d.d., Zagreb	Investment funds management	-	100%
HYPO ALPE-ADRIA-LEASING d.o.o. u likvidaciji, Zagreb	Leasing	100%	100%

Company Addiko Invest d.d. was sold to INTERKAPITAL d.d. in August 2017.

Company Hypo Alpe-Adria-Leasing d.o.o. u likvidaciji is in liquidation process. In the course of 2017 company's assets (finance and operating leasing portfolio) is significantly reduced (for more than HRK 240 million) by regular repayment, refinancing into the Bank and proactive early repayment approach in agreement with the clients. Furthermore, the Bank, as the owner, has started negotiations with several interested parties about the sale of the company and will continue this process in 2018. As Hypo Alpe-Adria-Leasing d.o.o. u likvidaciji is the only company in 100% ownership of the Bank and given that its asset is reduced below EUR 10 million (approximately HRK 75 million) at the end of 2017, it is considered as non-material subsidiary and for that reason consolidated financial statements for 2017 are equal to the separate financial statements.

Consolidated companies' contribution within the Group net profit after intercompany eliminations for the year: HRK'000

	2017	2016
Addiko Bank d.d., Zagreb	229,654	49,672
Addiko Invest d.d., Zagreb	-	3,159
HYPO ALPE-ADRIA-LEASING d.o.o. u likvidaciji, Zagreb	-	6,800
Total	**229,654**	**59,631**

Consolidated companies' contribution within the Group reserves: HRK'000

	2017	2016
Addiko Bank d.d., Zagreb	302,097	(2,440,422)
Addiko Invest d.d., Zagreb	-	7,691
HYPO ALPE-ADRIA-LEASING d.o.o. u likvidaciji, Zagreb	-	(38,113)
Total	**302,097**	**(2,470,844)**

1. GENERAL INFORMATION ABOUT THE BANK AND THE GROUP (CONTINUED)

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.

c) Members of the Supervisory Board

The members of the Supervisory Board of the Bank during the year 2017 were as follows:

Hans-Hermann Anton Lotter	President	Appointed as at 15 October 2015
Nicholas John Tesseyman	Member	Appointed as at 1 December 2015
Tomislav Perović	Member	Appointed as at 1 March 2016
Csongor Bulcsu Nemeth	Member	Appointed as at 1 March 2016
Boris Šavorić	Member	Appointed as at 2 February 2017
Edgar Flaggl	Member	Appointed as at 22 April 2014 Resigned as at 8 March 2017

d) Members of the Management Board

The members of the Management Board of the Bank during the year 2017 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 9 March 2016
Jasna Širola	Member	Appointed as at 9 March 2016

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. For these items the regulations require that a credit institution performs collective assessment of latent losses by applying its internal experience-based methodology prepared and tested in advance, where the provision shall not be less than 0.8% of the total exposure to items qualifying for such latent losses. A credit institution having no internal methodology needs to maintain the level of such value adjustments at a minimum of 1% of the total relevant exposure. The Bank has adopted the methodology for the calculation of collective impairment and provisions for latent losses.

Also, IAS 39 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. The Bank generally recognizes the amortization of such discounts as a release of impairment allowance rather than as interest income.

In certain cases, however, collections are recognized as interest income once impairment losses are fully reversed.

Additionally the CNB prescribes minimum levels of impairment losses against certain specifically identified impaired exposures, which may be different from the impairment loss 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

Initial application of new amendments to the existing Standards and Interpretation effective for current financial period

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current financial period:

- *Amendments to IAS 7 "Statement of Cash Flows"* - Disclosure Initiative – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
- *Amendments to IAS 12 "Income Taxes"* - Recognition of Deferred Tax Assets for Unrealized Losses – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
- Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 8 February 2018 (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017).

The adoption of these amendments to the existing standards and interpretations has not led to any material changes in the Bank's and the Group's accounting policies.

Standards and amendments to the existing Standards issued by IASB and adopted by the EU but not yet effective

At the date of authorization of these financial statements the following new standards and amendments to the existing standards issued by IASB and adopted by the EU are not yet effective:

- *IFRS 9 "Financial Instruments"* adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018)

In July 2014, the IASB published the final version of **IFRS 9** Financial Instruments, which is mandatory for reporting periods beginning on or after 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

Classification and measurement of Financial Assets and Financial Liabilities

IFRS 9 establishes three principal classification categories for financial assets: measurement at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The existing categories according to IAS 39 – held-to-maturity, loans and receivables and available for sale - are no longer existing.

On initial recognition, a financial asset is classified into one of the categories, the basis of this classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

Business model assessment

In 2017 the Addiko Group made an assessment of business models for all segments and set up documentation including the policies and objectives for each relevant portfolio as this best reflects the way the business is managed and information is provided to management. The information that was taken into account includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of assets,
- how the performance of the portfolio is evaluated and reported to the Group´s management,
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed,
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected,

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Application of new and revised International Financial Reporting Standards (continued)

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. Information about sales activity is considered as part of an overall assessment on how the Group´s stated objective for managing the financial assets is achieved and how cash flows are realized.

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”), Addiko considered the contractual terms of the instrument and analyzed the existing portfolio based on a checklist for SPPI criteria.

This include 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 Group´s claim to cash flows from specified assets and features that modify consideration for the time value of money.

Based on the entity’s business model and the contractual cash flow characteristics IFRS 9 defines the following principal classification categories:

- a financial asset is measured at amortized cost only if the object of the entity’s 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 (FVOCI) if the asset is held in a business model in which assets are managed both in order to collect contractual cash flows and for sale 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 will no longer be separated from the financial host asset. The financial instrument is assessed in its entirety and measured at fair value through profit or loss.

For equity investments that are not held for trading, entities can make an irrevocable election at initial recognition to measure the instruments using FVOCI option, with all subsequent changes in fair value being recognized in other comprehensive income (OCI). This election is available for each separate investment.

The classification and measurement requirements for financial liabilities are only slightly changed compared to IAS 39. Changes to the fair value of liabilities resulting from changes in own credit risk of the liability are recognized in other comprehensive income, the remaining amount of the change in the fair value will be presented in profit or loss.

Impairment

IFRS 9 replaces the “incurred loss” model in IAS 39 with a forward-looking “expected credit loss” (ECL) model. The ECL is basically defined 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 (considering probabilities of default and expected recoveries). This will require considerable judgment over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Application of new and revised International Financial Reporting Standards (continued)

The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

Under IFRS 9, no impairment loss is recognized on equity investments.

IFRS 9 requires a loss allowance to be recognized at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date. Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition. An entity will define (by certain criteria's) that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date.

The impairment requirements of IFRS 9 are complex and require management judgments, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

Measurement of ECL´s

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;

Definition of default

Under IFRS 9, the Group will consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Group. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Group will consider indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Significant increase in credit risk

Under IFRS 9, when determining whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Group's historical experience where available, expert credit assessment and forward-looking information.

The Group will primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing the one-year probability of default (PD) as at the reporting date; with the one-year PD that was estimated on initial recognition of the exposure.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Application of new and revised International Financial Reporting Standards (continued)

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. Modifying the contractual terms of a financial instrument may also affect this assessment.

- Credit risk grades - The Group will allocate each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default (PD) and applying experienced credit judgment. The Group will use these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower. Credit risk grades are targeted in such a way that the risk of default occurring increases as the credit risk deteriorates – e.g. the difference in the risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3. Each exposure will be allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.
- Generating the term structure of PD - Credit risk grades will be a primary input into the determination of the term structure of PD for exposures. The Group will collect performance and default information about its credit risk exposures analyzed by jurisdiction, by type of product and borrower and by credit risk grading, whenever meaningful. For some portfolios, information purchased from external credit reference agencies may be used as well. The Group will employ statistical models to analyze the collected data and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. This analysis will include the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macroeconomic indicators are likely to include GDP growth, unemployment rate and others. The Group's approach to incorporating forward-looking information into this assessment is discussed below.

The Group has established a framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework aligns with the Group's internal credit risk management process. The criteria for determining whether credit risk has increased significantly will vary by portfolio and will include a backstop based on delinquency.

The Group will deem the credit risk of a particular exposure to have increased significantly since initial recognition if, based on the Group's quantitative modeling, one year PD is determined to have increased in absolute range between 4p.p. to 5p.p., depending on the portfolio, since initial recognition.

In certain instances, using its expert credit judgment and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis. As a backstop, and as required by IFRS 9, the Group will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Group will determine days past due date by counting the number of days since the earliest elapsed due date when the full payment has not been received.

The Group aims to monitor the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Application of new and revised International Financial Reporting Standards (continued)

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

- PD;
- loss given default (LGD); and
- exposure at default (EAD).

These parameters will be derived from internally developed statistical models, regulatory values as well as expert judgment. They will be adjusted to reflect forward-looking information as described below.

PD estimates are estimates at a certain date, which will be calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models will be based on internally compiled data comprising both quantitative and qualitative factors, wherever meaningful. Where it is available, market/external data may also be used as well. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. While PDs are based on statistical models, the risk parameters (LGD, CCF) are leveraging on regulatory values and/or expert assessment.

Forward-looking information

Under IFRS 9, the Group will incorporate 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 Group will formulate a ‘base case’ view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios. This process will involve developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

The base case will represent a most-likely outcome and it will be aligned with information used by the Group for other purposes, such as strategic planning and budgeting. The other scenarios will represent more optimistic and more pessimistic outcomes. The Group will also periodically carry out stress-testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Group has identified and documented key drivers of credit risk for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk. These key drivers include within other factors also unemployment rates and GDP forecasts. Predicted relationships between the key indicators and default rates on various portfolios of financial assets have been developed based on analyzing historical data.

Derecognition and contract modification

IFRS 9 incorporates the requirements of IAS 39 for the derecognition of financial assets and financial liabilities without substantive amendments.

However, it contains specific guidance for the accounting when the modification of a financial instrument not measured at FVTPL does not result in derecognition. Under IFRS 9, the Group will recalculate the gross carrying amount of the financial asset by discounting the modified contractual cash flows at the original effective interest rate and recognize any resulting adjustment as a modification of gain or loss in profit or loss. Under IAS 39, the Group does not recognize any gain or loss in profit or loss on modifications of financial liabilities and non-distressed financial assets that do not lead to their derecognition. The Group expects an immaterial impact from adopting these new requirements.

Hedge Accounting

IFRS 9 also contains a new general hedge accounting model. This model aligns hedge accounting more closely with operational risk management and allows hedging strategies that are used for the purposes of risk management. The effectiveness test as a requirement for the use of hedge accounting was revised: instead of the quantitative criterion (bandwidth of 80% to 125%), qualitative and quantitative criteria for a forward-looking effectiveness assessment were introduced. Furthermore, voluntary terminations of hedge relationships are no longer allowed in general, but only if certain requirements are met. Rules for rebalancing were introduced for hedging relationships in which the

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Application of new and revised International Financial Reporting Standards (continued)

hedged risk and the risk covered by hedging instruments are not identical. These rules state that the hedge ratio can be adjusted in the event of correlation changes without having to terminate the hedge relationship.

Impacts on capital planning

The Bank's regulator has issued guidelines on transition requirements for the implementation of IFRS 9. The guidelines allow a choice of two approaches to the recognition of the impact of adoption of the ECL model on regulatory capital:

- phasing in the full impact over a five-year period; or
- recognizing the full impact on the day of adoption.

The Group has decided to adopt the second approach.

Impacts from initial application

The new standard will affect the classification and measurement of financial instruments held as at 1 January 2018 as follows:

- based on assessments undertaken to date, the major part of the loan portfolio classified as loans and receivables according to IAS 39 will still be measured at amortized costs according to IFRS 9;
- financial assets held for trading will furthermore be measured at FVTPL;
- Addiko classified most debt securities as available for sale according to IAS 39. Within the new classification of IFRS 9 these debt securities will be measured at FVTOCI, as those assets are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- for the majority of the equity instruments that are classified as available for sale under IAS 39, Addiko will exercise the option to irrevocably designate them at initial recognition at FVTOCI option;

No further significant changes regarding classification arose based on the business model criterion.

According to IFRS 9.7.2.21 it is allowed to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9. Based on this accounting policy choice, Addiko continues to apply the existing hedge accounting model in IAS 39 without any major impacts on the consolidated financial statements of the Group.

Regarding classification and measurement of financial liabilities, no major impact on the consolidated financial statements of the Group occurred based on new regulations of IFRS 9.

IFRS 9.7.2.15 offers the accounting policy choice to restate prior periods or to recognize any impact from initial application of IFRS 9 in the opening equity as of 1 January 2018. Addiko Bank does not restate comparative figures and presents the one-off effect in the opening retained earnings amounting to HRK 8,000 to 9,000 thousand. One-off effect is coming partially from implementation of IFRS 9 Expected Credit Loss methodology and partially from implementation of new CNB Decision on the classification of exposures into risk categories and the method of determining credit losses.

These assessments above are to be seen as preliminary because not the whole transition work has been finalized yet. The final impact of adopting IFRS 9 at the beginning of 2018 may change because:

- Addiko is refining and finalizing its model for ECL calculations
- IFRS 9 will require Addiko to revise its accounting processes and internal controls and these changes are not yet fully completed
- Addiko has not finalized the testing and the assessment of controls over its new IT systems and changes to its governance framework
- although parallel runs were carried out in the second half of 2017, the new systems and associated controls in place have not been operational for an extended period of time
- the new accounting policies, assumptions, judgments and estimation techniques employed are subject to change until Addiko finalizes its first financial statements that include the date of initial application.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Application of new and revised International Financial Reporting Standards (continued)

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement changes (including impairment). Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognized in retained earnings and reserves as at 1 January 2018.

The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation and the revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI option.
- For a financial liability designated as at FVTPL, the determination whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
- If a debt investment security has low credit risk at 1 January 2018, then the Group will determine that the credit risk on the asset has not increased significantly since the initial recognition.
- IFRS 15 *"Revenue from Contracts with Customers"* and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).
- IFRS 16 *"Leases"* – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- *Amendments to IFRS 4 "Insurance Contracts"* - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied for the first time),
- *Amendments to IFRS 15 "Revenue from Contracts with Customers"* - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018),
- Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 8 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

The Bank and the Group anticipate that the adoption of these standards, amendments to the existing standards and interpretations, other than IFRS 9, will have no material impact on the financial statements of the Bank and the Group in the period of the initial application.

New Standards and amendments to the existing Standards issued by IASB but not yet adopted by the EU

At present, IFRS, as adopted by the EU, do not significantly differ from regulations adopted by the IASB except from the following new standards, amendments to the existing standards and new interpretations, which were not endorsed for use in the EU as at the date of publishing these financial statements:

- *IFRS 14 "Regulatory Deferral Accounts"* (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- *IFRS 17 "Insurance Contracts"* (effective for annual periods beginning on or after 1 January 2021),
- *Amendments to IFRS 2 "Share-based Payment"* - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- *Amendments to IFRS 9 "Financial Instruments"* - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Application of new and revised International Financial Reporting Standards (continued)

- *Amendments to IFRS 10 "Consolidated Financial Statements"* and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- *Amendments to IAS 19 "Employee Benefits"* - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- *Amendments to IAS 28 "Investments in Associates and Joint Ventures"* - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- *Amendments to IAS 40 "Investment Property"* - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- *IFRIC 22 "Foreign Currency Transactions and Advance Consideration"* (effective for annual periods beginning on or after 1 January 2018),
- *IFRIC 23 "Uncertainty over Income Tax Treatments"* (effective for annual periods beginning on or after 1 January 2019).

The Bank and the Group anticipate that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Bank and the Group in the period of initial application.

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 2017 to 31 December 2017 in compliance with the statutory accounting requirements for banks in Croatia.

These statutory financial statements are prepared for the purpose of compliance with the legal requirements and for general information and not for any specific purpose, user or transaction.

The financial statements are presented in the Croatian currency, Kuna (HRK), rounded to the nearest thousand, unless stated otherwise. The financial statements for the year ended 31 December 2017 have been prepared under the historical cost convention except for financial assets and liabilities at fair value in accordance with IAS 39 *"Financial Instruments: Recognition and Measurement"* 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 Group entities and are consistent with those applied in previous years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Basis of Preparation (continued)

Reclassification of comparative information and presentational changes

In order to improve certain financial statements items' presentation in Statement of profit or loss and Statement of financial position for the year 2017, the Group has made certain reclassifications. In order to ensure consistency in preparation and alignment to new 2017 classification, comparatives for the year 2016 were reclassified as presented in the tables bellow:

HRK'000

	Group 2016 As previously reported	Group 2016 Reclassifications	Group 2016 As reclassified	Bank 2016 As previously reported	Bank 2016 Reclassifications	Bank 2016 As reclassified
Interest and similar income	841,214	-	841,214	839,968	-	839,968
Interest expense and similar charges	(396,638)	(773)	(397,411)	(396,777)	(773)	(397,550)
Net interest income	**444,576**	**(773)**	**443,803**	**443,191**	**(773)**	**442,418**
Fee and commission income	220,162	7,859	228,021	211,488	7,858	219,346
Fee and commission expense	(47,559)	(851)	(48,410)	(45,826)	(850)	(46,676)
Net fee and commission income	**172,603**	**7,008**	**179,611**	**165,662**	**7,008**	**172,670**
Net trading gain	183,010	(7,859)	175,151	183,694	(7,859)	175,835
Net foreign exchange differences	(65,463)	-	(65,463)	(67,152)	-	(67,152)
Other operating income	83,679	-	83,679	33,582	-	33,582
Total income	**818,405**	**(1,624)**	**816,781**	**758,977**	**(1,624)**	**757,353**
Personnel expenses	(245,635)	-	(245,635)	(234,911)	-	(234,911)
Depreciation	(75,995)	-	(75,995)	(36,830)	-	(36,830)
Amortization	(10,971)	-	(10,971)	(10,812)	-	(10,812)
Impairment losses	(104,832)	(1,502)	(106,334)	(103,021)	(1,503)	(104,524)
Result on conversion of CHF loans	68,962	-	68,962	68,962	-	68,962
Other operating expenses	(370,016)	3,126	(366,890)	(362,980)	3,127	(359,853)
Total expenses	(738,487)	1,624	(736,863)	(679,592)	1,624	(677,968)
Profit before tax	79,918	-	79,918	79,385	-	79,385
Income tax	(20,287)		(20,287)	(20,166)	-	(20,166)
Net profit for the year	**59,631**	**-**	**59,631**	**59,219**	**-**	**59,219**

Explanation of reclassifications in Profit and Loss statement for the year 2016:

- Insurance expenses based on credit cards in the amount of HRK 773 thousand were reclassified from the position "Other operating expenses" to the position "Interest expense and similar charges";
- Income deriving from the bid-ask spread from transactions with the customers in the amount of HRK 7,858 thousand was reclassified from the position "Net trading gain" to the position "Fee and commission income";
- Insurance expenses based on transaction accounts packages in the amount of HRK 850 thousand were reclassified from the position "Other operating expenses" to the position "Fee and commission expense";
- Collection expenses in the amount of HRK 1,503 thousand were reclassified from the position "Other operating expenses" to the position "Impairment losses".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Basis of Preparation (continued)

HRK'000

	Group 2016 As previously reported	Group 2016 Reclassifications	Group 2016 As reclassified	Bank 2016 As previously reported	Bank 2016 Reclassifications	Bank 2016 As reclassified
Assets						
Cash and balances with Croatian National Bank	3,764,974	-	3,764,974	3,764,974	-	3,764,974
Financial assets at fair value through profit or loss, excluding derivatives	32,157	-	32,157	32,157	-	32,157
Derivative financial assets	614	-	614	614	-	614
Placements with and loans to other banks	112,544	-	112,544	112,544	-	112,544
Loans and receivables	12,264,104	77,109	12,341,213	12,579,560	77,300	12,656,860
Available for sale financial assets	4,009,587	-	4,009,587	4,009,587	-	4,009,587
Assets acquired in lieu of uncollected receivables	10,428	-	10,428	10,428	-	10,428
Investment property	8,929	-	8,929	8,929	-	8,929
Property, plant and equipment	242,244	-	242,244	242,244	-	242,244
Intangible assets	35,213	-	35,213	35,213	-	35,213
Non-current assets and disposal groups classified as held for sale	325,729	-	325,729	8,063	-	8,063
Deferred tax assets	39,975	-	39,975	45,105	-	45,105
Current tax assets	315	-	315	315	-	315
Other assets	141,924	(84,440)	57,484	142,116	(84,632)	57,484
Total assets	**20,988,737**	**(7,331)**	**20,981,406**	**20,991,849**	**(7,332)**	**20,984,517**
Liabilities						
Due to other banks	718,109	-	718,109	718,109	-	718,109
Due to customers	15,498,471	-	15,498,471	15,514,731	-	15,514,731
Derivative financial liabilities	1,837	-	1,837	1,837	-	1,837
Provisions for liabilities and charges	218,214	-	218,214	218,255	-	218,255
Provision for losses on conversion of CHF loans	14,930	-	14,930	14,930	-	14,930
Liabilities included in disposal groups classified as held for sale	20,473	-	20,473			
Other liabilities	131,048	(7,331)	123,717	131,123	(7,332)	123,791
Subordinated debt	1,803,896	-	1,803,896	1,803,896	-	1,803,896
Total liabilities	**18,406,978**	**(7,331)**	**18,399,647**	**18,402,881**	**(7,332)**	**18,395,549**
Equity						
Share capital	4,992,972	-	4,992,972	4,992,972	-	4,992,972
Share premium	59,769	-	59,769	59,769	-	59,769
Profit for the year	59,631	-	59,631	59,219	-	59,219
Accumulated losses	(2,682,480)	-	(2,682,480)	(2,673,609)	-	(2,673,609)
Reserves	151,867	-	151,867	150,617	-	150,617
Total equity	**2,581,759**	**-**	**2,581,759**	**2,588,968**	**-**	**2,588,968**
Total liabilities and equity	**20,988,737**	**(7,331)**	**20,981,406**	**20,991,849**	**(7,332)**	**20,984,517**
Commitments and contingent liabilities	**1,908,055**	**-**	**1,908,055**	**1,913,096**	**-**	**1,913,096**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Basis of Preparation (continued)

Explanation of reclassifications in Statement of financial position for the year 2016:

- Receivables based on fees and commissions, receivables based on card business as well as other receivables from customers in the amount of HRK 77,845 thousand were reclassified from the position “Other assets” to the position “Loans and receivables”;
- Early repayments based on card business in the amount of HRK 545 thousand were reclassified from the position “Other liabilities” to the position “Loans and receivables”;
- Payables based on card business settlement in the amount of HRK 794 thousand are netted with related receivables and reclassified from the position “Other liabilities” to the position “Other assets”;;
- Receivables based on card business settlement in the amount of HRK 5,993 thousand are netted with related payables and reclassified from the position “Other assets” to the position “Other liabilities”.

d) Basis of Consolidation

The financial statements are presented for the Bank and the Group. The Group’s financial statements comprise the consolidated financial statements of the Bank and its subsidiary entities.

Subsidiaries are the enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the Group financial statements on a consolidated basis from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any realized and unrealized gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

e) 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 and similar income” in statement of profit or loss.

f) Fee and Commission Income and Expense

Fee and commission income arises on financial services provided by the Group 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 Group.

Fee and commission income is credited to the income, when the corresponding service is provided.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Retirement Benefit Costs

The Group 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 Group from the payment of pensions to employees in the future.

h) 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.

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

31 December 2017	1 EUR = HRK 7.513648
31 December 2017	1 CHF = HRK 6.431816
31 December 2016	1 EUR = HRK 7.557787
31 December 2016	1 CHF = HRK 7.035735

i) Financial Instruments

Financial assets held by the Group is categorized into portfolios in accordance with the Group's intent on the acquisition and pursuant to the Bank's and the Group's investment strategy. Financial assets are classified as "At fair value through profit or loss", "Loans and receivables" or as "Assets available for sale". The principal difference among the portfolios relates to the measurement of financial assets and the recognition of their fair values in the financial statements.

Financial Assets at Fair Value through Profit or Loss

Financial instruments included in this portfolio are held for trading financial instruments, which were either acquired for generating a profit from short term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short term profit taking exists.

These instruments are initially recognized at cost and subsequently stated at fair value which approximates the price quoted on recognized stock exchanges.

All related realized and unrealized gains and losses are included in "Net trading gain". Interest earned whilst holding these instruments is reported as "Interest and similar income".

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. All loans and receivables are recognized when cash is advanced to customers. Loans and receivables are measured after initial recognition at amortized cost using the effective interest method, less any allowance for impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial Instruments (continued)

Loans and Receivables (continued)

Third party expenses, such as legal fees, incurred in securing a loan and other fees, such as loan origination fees are treated as part of the cost of the transaction. Loan origination fees are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate of the loan.

Loans and receivables are stated net of allowances for impairment losses. Allowances for impairment losses are established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the allowance for impairment losses is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

Specific allowances for impairment losses are assessed with reference to the credit worthiness and performance of the borrower and are taking into account the value of any collateral or third party guarantees.

When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off. If in a subsequent period, the amount of allowance decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through the statement of profit or loss.

In addition to the above described impairment losses on assets identified as impaired, the Group recognizes impairment losses, in the statement of profit or loss, on on- and off-balance-sheet credit risk exposures not identified as impaired at rates which are not less than 0.8%, in accordance with the accounting regulations of the CNB.

Available for sale Financial Assets

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as financial assets at fair value through profit or loss or loans and receivables.

Financial instruments included in available for sale financial assets are initially recognized at cost adjusted for transaction costs and subsequently stated at fair value based on the quoted prices, or amounts derived from cash flow models. If estimated fair value is not reliable, assets are recognized at cost.

For available for sale financial assets, gains and losses arising from changes in fair value are recognized in other comprehensive income, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in other comprehensive income is included in the statement of profit or loss for the period.

Impairment losses recognized in the statement of profit or loss for equity investments classified as available for sale are not subsequently reversed through the statement of profit or loss. Impairment losses recognized in the statement of profit or loss for debt instruments classified as available for sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Interest earned whilst holding available for sale securities is accrued on a daily basis and reported as “Interest and similar income” in the statement of profit or loss.

Foreign exchange differences related to available for sale equity instruments held in foreign currency are reported together with fair value gains and losses in other comprehensive income until the financial asset is sold. Foreign exchange differences related to available for sale debt instruments held in foreign currency are reported in statement of profit or loss.

Dividends on available for sale financial assets are recorded as declared and included as a receivable in “Other assets” in the Statement of financial position and in “Other operating income” in the Statement of profit or loss. Upon payment of the dividend, the receivable is offset against the collected cash.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Recognition and De-recognition of Financial Assets

Purchases and sales of financial assets at fair value through profit or loss and financial assets available for sale are recognized on the settlement date, which is the date when the financial instrument is delivered to or transferred from the Group.

Loans and receivables and financial liabilities at amortized cost are recognized when funds are advanced or received.

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership but it does not retain control of the financial asset. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

k) Derivative Financial Instruments

In the normal course of business, the Group uses derivative financial instruments to manage its risks. The use of financial derivatives is governed by the Group's policies approved by the Supervisory 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.

l) Property, Plant and Equipment

Property, plant 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 are as follows:

	2017	2016
Buildings	2% - 5%	2% - 5%
Equipment and computers	10% - 20%	10% - 20%
Equipment bought after leasing contract maturity	20% - 100%	20% - 100%
Other	10% - 20%	10% - 20%

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 properties revaluation reserve relating to a previous revaluation of that asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Property, Plant and Equipment (continued)

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, plant 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.

m) Investment property

Investment property is property held by the Group 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 (2016: 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, plant and equipment to investment property measured at cost, revaluation reserve accumulated while the property was accounted for as property, plant 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.

n) 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 4 to 10 years (2016: 4 to 10 years).

o) Impairment of Non-Financial Assets

Property, plant 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Leases

Leases of assets in terms of which the Group retains all the risks and rewards of ownership are classified as finance leases. Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating lease arrangements. Lease payments under operating lease are recognized as expenses on a straight-line basis over the lease term and included in other operating expenses.

Assets leased under operating lease arrangements where the Group is the lessor are included in investment property in the statement of financial position. They are depreciated over their expected useful lives. Initial direct costs incurred in arranging an operating lease are added to the carrying amount of the leased assets and recognized as an expense over their useful life.

q) 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 Group 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 Group reclassifies the asset on its statement of financial position. The counterparty liability is included in "Due to other banks" or "Due to customers", as appropriate.

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 "Placements with and loans to other banks" or "Loans and receivables", 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.

r) Provisions for Liabilities and Charges

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

Provisions for liabilities and charges are maintained at the level that the Group's management considers sufficient for absorption of incurred losses. The management determines the sufficiency of provisions on the basis of insight into specific items, current 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 Group enters into credit related commitments, which are recorded in off-balance sheet accounts and primarily include guarantees, letters of credit and undrawn loan commitments. Such financial commitments are recorded in the Group's balance sheet if and when they become payable.

The provision for possible commitments and contingent liabilities losses is maintained at a level the Group management believes is adequate to absorb probable future losses. The Group 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 Group'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 realized. Deferred tax is charged or credited in the statement of profit or loss and statement of the comprehensive income respectively.

The Group'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 Group's day to day operations.

3. ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated, and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in the existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Group'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

The Group 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 Group 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 Group 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 Group also takes into consideration the minimum impairment loss rates of 0.8% prescribed by the CNB.

Financial assets carried at amortized cost

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

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

The Group takes into consideration the combined effect of several events when assessing impairment and uses its experienced 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 Group also takes into consideration the ranges of specific impairment loss rates prescribed by the CNB.

During 2016, the Bank has developed internal model for calculating PD and LGD parameters for calculation of portfolio risk provisions. This calculation is done for each segment separately, additionally differing for Retail segment PD's and LGD's for secured and unsecured portfolio, and based on Banks historical data. Upon parameters definition, from November 2016 onward, these parameters are used in portfolio risk provision calculation, also taking into consideration the minimum impairment loss rate defined by CNB. According to Decision on the classification of placements and potential liabilities of credit institutions, the collective impairment of exposures classified into risk category A can be performed in the amount of latent losses determined by a credit institution by applying its internal methodology, prepared and tested in advance, based on its historical loss experience, at which the total amount of impairment cannot be less than 0.8% of the total exposure classified into risk category A.

In 2017 impairment losses for loans and receivables classified into risk category A are mainly driven by regular portfolio movements (positive and negative migrations in and out of NPL portfolio) and new business volumes. In the same period, provision releases for NPL portfolio (loans and receivables classified into risk category B and C) are driven by Retail segment portfolio sales of secured portfolio (housing loans) and unsecured portfolio. Combined with strong collection and rehabilitation activities in all segments, this was a main driver for offsetting of negative impact influenced mainly by NPL migration of one large Croatian retailer.

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

b) Impairment of available for sale equity investments

The Group determines that available for sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the nominal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

c) Classification of lease contracts

The Group acts as a lessor in operating and finance leases. Where the Group, as a lessor, transfers substantially all the risks and rewards incidental to ownership to the lessee, the leases are classified as finance leases. All other leases are classified as operating and related assets are included in property and equipment under operating leases at cost net of accumulated depreciation. In determining whether leases should be classified as operating or finance, the Group considers the requirements of IAS 17 Leases.

d) 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 Group 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 Group 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 Group’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.

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.

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

d) Fair value of financial instruments (continued)

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.

Equity Instruments

Equity Instruments are assigned to Level 1 when a quoted price is available on a market and to Level 3 when no quotations are available or quotations have been suspended indefinitely.

Investment Funds

The Group 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 2.

e) Taxation

The Group 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 Group’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.

f) Regulatory requirements

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

g) Litigation and claims

The Group makes an individual assessment of all court cases. The assessment is made by the Legal Department of the Bank or its relevant subsidiaries. The assessed amounts represent the Group’s best estimate of loss in respect of legal cases, although the actual outcome of court cases initiated against the Group 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.

h) Provisions for Liabilities and Charges

The Group 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.

The Group makes an individual assessment of potential obligations arising from onerous contracts and assessment of restructuring expenses. The assessed amounts represent the Group’s best estimate of loss. Within the alignment with Amendments of Consumer Financing Act and Credit Institutions Act that came to force on 30 September 2015, effects that were expected within the process of conversion of loans denominated in CHF and loans denominated in HRK with the currency clause in CHF into the loans denominated in EUR and the loans denominated in HRK with the currency clause in EUR, are recognized on the date of entry of the amendments into force. The loss was recognized, on best estimate basis, according to the IAS 37 as other provision for liabilities and charges.

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

i) 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.

j) Fair value of land and buildings

The Group 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 AND SIMILAR INCOME

a) By type of customer

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Interest charged to individuals	404,178	436,509	436,509
Interest charged to companies	199,236	240,713	244,123
Interest charged to public sector	114,168	122,542	122,542
Interest charged to non-residents	20,485	33,650	15,913
Interest charged to financial institutions	5,830	6,532	19,613
Interest charged to non-profit institutions	781	1,268	1,268
Total	**744,678**	**841,214**	**839,968**

b) By type of product

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Loans and receivables	679,072	805,968	804,722
Debt securities	55,703	26,248	26,248
Placements with and loans to other banks	5,895	2,877	2,877
Derivative financial instruments	2,465	2,792	2,792
Reverse repo agreements	1,023	453	453
Other	520	2,876	2,876
Total	**744,678**	**841,214**	**839,968**

Interest income of the Group includes the amount of HRK 51,536 thousand (2016: HRK 55,427 thousand) of collected interest on impaired financial assets.

5. INTEREST EXPENSE AND SIMILAR CHARGES

a) By type of customer

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Interest charged by individuals	120,197	199,173	199,173
Interest charged by non-residents	106,306	137,389	137,389
Interest charged by financial institutions	26,313	36,645	36,784
Interest charged by companies	9,870	20,901	20,901
Interest charged by public sector	901	1,732	1,732
Interest charged by non-profit institutions	546	1,571	1,571
Total	**264,133**	**397,411**	**397,550**

b) By type of product

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Due to customers	146,028	250,431	250,570
Subordinated debt	97,904	92,287	92,287
Due to other banks	12,588	37,708	37,708
Repo agreements	-	4,249	4,249
Derivative financial instruments	3,832	1,318	1,318
Other	3,781	11,418	11,418
Total	**264,133**	**397,411**	**397,550**

6. FEE AND COMMISSION INCOME

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Fees from services to individuals	103,849	101,501	101,501
Fees from services to companies	66,727	77,184	77,110
Fees from financial institutions	29,529	36,822	28,221
Fees from services to non-residents	9,455	8,747	8,747
Fees from non-profit institutions	2,504	2,396	2,396
Fees from public sector	1,353	1,371	1,371
Total	**213,417**	**228,021**	**219,346**

Fees from services include fees for payment services, fees for approval of overdrafts, guarantees and letters of credit, fees for card business services and other fees.

7. FEE AND COMMISSION EXPENSE

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Commissions for services of FINA (clearing house)	14,924	16,683	16,181
Commissions for services of non-residents	12,822	21,428	21,428
Commissions for services of financial institutions	5,927	7,453	6,982
Commissions for services of other companies	4,296	2,846	2,085
Total	**37,969**	**48,410**	**46,676**

"Commissions for services of non-residents" in 2016 includes the amount of HRK 9,051 thousand which was charged to the Bank through the process of liquidity optimization via premature refinancing lines repayment. Costs for the named repayment were charged to the Bank on the arm's length principle calculated as net present value of all future cash flows related to interest payments.

8. NET TRADING GAIN

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Net gain from trading in foreign currencies	49,196	41,108	41,512
Net gain from trading in derivatives	12,483	68,840	69,120
Net realized gains from available for sale financial assets	10,035	64,386	64,386
Net realized gains from financial assets held for trading, excluding derivatives	529	53	53
Net unrealized gains from financial assets held for trading, excluding derivatives	299	764	764
Total	**72,542**	**175,151**	**175,835**

8. NET TRADING GAIN (CONTINUED)

The net trading gain in 2017 was HRK 72,542 thousand. 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 the loss in position Net FX differences, contained in Note 9, in amount of HRK 19,841 thousand (2016: HRK 67,152 thousand), producing the total trading result of HRK 52,701 thousand (2016: HRK 116,542 thousand).

Compared to year 2016, in year 2017 Bank held significantly lower volume of derivative position due to finalization of CHF loans conversion and therefore has recorded lower Net gain from trading in derivatives.

Position Net realized gains from available for sale financial assets shows decrease from HRK 64,386 thousand in year 2016 to HRK 10,035 thousand in year 2017 mainly due to extraordinary gain from sale of non-core financial asset realized in 2016 in the amount of HRK 64,271 thousand.

9. NET FOREIGN EXCHANGE DIFFERENCES

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Net loss from translation of monetary assets and liabilities:			
Foreign currency clause" assets and liabilities	(63,680)	(125,613)	(121,841)
Foreign currency assets and liabilities	43,839	60,150	54,689
Total	**(19,841)**	**(65,463)**	**(67,152)**

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 loss 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 loss from revaluation of its assets and liabilities in 2017 in amount of HRK 19,841 thousand. In year 2016, in named position, loss in the amount of HRK 65,463 thousand has been recorded. Mismatch of currency structure between Banks assets and liabilities is hedged through derivatives positions. As such, above stated result has to be monitored in combination with position Net gain/loss from trading in derivatives, contained in Note 8, (HRK 12,483 thousand) through which previously stated loss is hedged. In year 2016, in named position, gain in the amount of HRK 68,840 thousand has been recorded.

10. OTHER OPERATING INCOME

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Income from sales of property and assets held for sale	14,584	4,721	3,903
Income from services to Group members	13,398	7,143	9,223
Income from dividends	9,978	22	22
Income from cards business	7,053	6,533	6,532
Rental income	2,030	52,170	4,037
Other income	5,716	13,090	9,865
Total	**52,759**	**83,679**	**33,582**

'Income from sales of property and assets held for sale' contains the income from sale of Addiko Invest d.d. in the amount of HRK 13,141 thousand.

'Income from services to Group members' mainly relates to intra group services based on new Target Operating Model for the functions located in Croatia and providing services to other Group members. Higher income in 2017 resulted from time period of providing the service i.e. in 2016 functions were in a set-up phase, thus the services were not provided during the whole year.

'Income from dividends' relates to dividend received from Addiko Invest d.d. prior to sale of the company. The majority of the Group's rental income in 2016 is earned by HYPO ALPE-ADRIA-LEASING d.o.o. u likvidaciji from operating lease.

11. PERSONNEL EXPENSES

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Net salaries	120,690	129,177	125,347
Pension insurance expenses	33,611	37,223	35,973
Contributions on salaries	29,998	33,009	31,918
Tax and surtax expenses	22,948	27,838	26,625
Other personnel expenses	2,228	2,071	1,998
Charging of provisions for employee benefits	18,589	16,317	13,050
Total	**228,064**	**245,635**	**234,911**

Reduction in personnel expenses was driven by cost optimization program. The Bank has developed a new target operating model in order to streamline processes and to improve overall efficiency.

As at 31 December 2017 and 2016, the Bank had 1,130 and 1,233 employees, respectively.

As at 31 December 2017 and 2016 the Group had 1,130 and 1,256 employees, respectively.

12. IMPAIRMENT LOSSES

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Cash and balances with Croatian National Bank	(13,315)	(1,008)	(1,008)
Placements with and loans to other banks	1,127	(4,562)	(4,562)
Financial assets available for sale	1	-	-
Loans and receivables	125,205	89,753	89,055
Assets acquired in lieu of uncollected receivables	566	3	3
Investment property	16	(610)	(610)
Property and land	11,180	109	109
Other equipment	2,639	26,559	25,407
Intangible assets	1,050	553	553
Assets held for sale	784	-	-
Guarantees and other contingent liabilities	(20,312)	(9,270)	(9,230)
Write offs	2,998	4,807	4,807
Total	**111,939**	**106,334**	**104,524**

As at 31 December 2017, for performing part of portfolio, the Bank recognized a portfolio based allowance for impairment losses in accordance with the CNB requirements of HRK 119,722 thousand for balance sheet items which is 0.8% of items qualifying for such impairment losses (2016: HRK 127,378 thousand; 0.8%) and HRK 14,976 thousand for off-balance sheet items which is 0.8% of items qualifying for such impairment losses (2016: HRK 14,299 thousand; 0.8%). Related release of provisions for collective impairment in the statement of profit or loss for 2017 for balance sheet items was HRK 7,656 thousand (2016: HRK 37,526 thousand) and for off-balance sheet items additional provision was HRK 677 thousand (2016: HRK 101 thousand).

In 2017 impairment losses for loans and receivables are mainly driven by regular portfolio movements (positive and negative migrations in and out of NPL portfolio) and new business volumes.

In 2016 main effects related to impairment losses of loans and receivables are coming from applying updated PD and LGD parameters which are based on Banks historical data, used in calculation of portfolio risk provisions for defaulted part of portfolio. Remaining effects are considering additional recordings for individually assessed and impaired defaulted portfolio.

Impairment losses of property and land in 2017 and other equipment in 2016 resulted mainly from cost optimization initiatives started by the Management Board.

Further to the cost optimization process launched in 2016 with the main focus set on analysis of processes and management estimate of IT infrastructure activities and IT related assets, as one of the major cost drivers, in 2017 the process was extended to analysis of property portfolios and determination of its potential for sale. Result of performed analysis showed the need to recognize the substantial impairment losses on the IT related assets and property portfolios. Further to assessment of impairment triggers the assessment of criteria to reclassify part of the assets as assets held for sale under IFRS 5 was performed as well (see Note 25).

13. OTHER OPERATING EXPENSES

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Material expenses and services	120,771	129,412	125,199
Rental and lease charges	31,527	37,661	38,434
Saving deposits insurance premium	25,662	28,563	28,563
Marketing expenses	20,944	10,114	9,875
Other taxes and contributions	8,538	15,289	14,795
Legal provisions	4,877	56,877	56,036
Sold and written-off assets expenses	2,442	3,202	1,726
Provisions for contractual obligations	2,128	350	350
Provisions for restructuring expenses	568	18,034	18,034
Write-offs of receivables	17	13	13
Rebranding expenses	14	13,539	13,539
Provision for expenses during sale of subsidiaries	-	22,232	22,232
Other provision	-	9,546	9,546
Other expenses	16,179	22,058	21,511
Total	**233,667**	**366,890**	**359,853**

Decrease in other operating expenses in 2017 is based on a disciplined and firm cost management and monitoring and implementation of the new Target Operating Model (TOM), with the goal of establishing a lean, efficient, more agile and integrated organization throughout the Group. In 2017, the reduction is visible on each individual other operating expenses position except marketing which reflects the investment in a new, more business oriented strategy and Provisions for contractual obligations which reflects settlement of past obligation for which no provision was recognized.

The preconditions for cost optimization were partly ensured in 2016 through increase in other operating expenses driven by the one offs clean-up, in particular:

- Legal provisions increase in 2016 resulted from the reviewing and reassessment of all passive cases
- Provisions for early termination of several onerous contracts (most significant ones were operating lease for Zagrad building in Rijeka and rental contract for regional center in Split-Dalmatia)
- Provisions built according to IFRS 5 for expenses related to sale of HYPO ALPE-ADRIA-LEASING d.o.o. u likvidaciji and Addiko Invest d.d. subsidiaries of the Bank

For more details please see Note 28.

14. INCOME TAX

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Current income tax expense	-	(691)	-
Deferred income tax	76,450	(19,596)	(20,166)
Income tax expense	**76,450**	**(20,287)**	**(20,166)**

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

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Net profit before tax	**153,204**	**79,918**	**79,385**
Tax at the statutory rate of 18% (2017) and 20% (2016)	(27,577)	(15,984)	(15,877)
Tax effect of non-taxable income	2,105	359	346
Tax effect of non-deductible costs	(6,705)	(7,821)	(7,813)
Utilization of loss carried forward	28,098	8,795	8,795
Tax effect from change of tax rate	-	(5,047)	(5,617)
Not recognized deferred tax on tax losses carried forward	-	(589)	-
Deferred tax on losses from prior years carried forward	80,529	-	-
Income tax reported in the statement of profit or loss	**76,450**	**(20,287)**	**(20,166)**
Effective tax rate	0%	0%	0%

Current tax assets of the Bank in the amount of HRK 664 thousand (2016: HRK 315 thousand) refer to the income tax advances paid to the Ministry of Finance, net of income tax liability.

As at 31 December 2017 the Bank has tax losses carried forward amounting to HRK 2,759,830 thousand (2016: Group HRK 2,960,011 thousand). Such tax losses may only be used by the company that incurred the loss to reduce taxable profits of the following five years after the years in which the loss was incurred.

Deferred tax asset related to unused tax losses of the Bank in the amount of HRK 2,312,449 thousand as at 31 December 2017 (2016: Group 2,960,011 thousand) was not recognized as it was not probable that this amount of tax losses carried forward will be utilized during the period of the next 5 years.

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

HRK'000

	Group and Bank 2017	Group 2016
No more than 1 year	-	11,019
No more than 2 years	18,734	485,078
No more than 3 years	2,293,715	164,670
No more than 4 years	-	2,293,715
No more than 5 years	-	5,529
Total net tax losses carried forward not recognized as deferred tax asset	**2,312,449**	**2,960,011**

14. INCOME TAX (CONTINUED)

Movements in the Group's deferred tax assets were as follows:

HRK'000

	Net deferred tax assets 2017	Recognized in total comprehensive income 2017	Net deferred tax assets 2016	Recognized in total comprehensive income 2016
Source:				
Unrealized losses on derivative financial instruments	216	(115)	331	(24,212)
Impairment of property and equipment	16,282	311	15,971	(3,258)
Deferred loan origination fees	6,449	(2,967)	9,416	(5,583)
Investments in subsidiary impairment	6,750	1,620	-	-
Other provisions	5,727	(4,790)	10,517	8,043
Pending court actions provisions	6,936	308	6,628	4,310
Employees provisions	4,112	1,553	2,559	1,132
Unrealized losses on financial assets at fair value through profit or loss	1	1	-	(28)
Tax loss carried forward	80,529	80,529	-	-
Deferred tax in profit and loss account	**127,002**	**76,450**	**45,422**	**(19,596)**
Fair value of available for sale financial assets	(11,306)	(9,452)	(1,854)	9,916
Land and buildings revaluation	(3,349)	244	(3,593)	505
Deferred tax relating to components of other comprehensive income	**(14,655)**	**(9,208)**	**(5,447)**	**10,421**
Total deferred tax	**112,347**	**67,242**	**39,975**	**(9,175)**

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

HRK'000

	Net deferred tax assets 2017	Recognized in total comprehensive income 2017	Net deferred tax assets 2016	Recognized in total comprehensive income 2016
Source:				
Unrealized losses on derivative financial instruments	216	(115)	331	(24,212)
Impairment of property and equipment	16,282	311	15,971	(3,258)
Deferred loan origination fees	6,449	(2,967)	9,416	(5,583)
Investments in subsidiary impairment	6,750	1,620	5,130	(570)
Other provisions	5,727	(4,790)	10,517	8,043
Pending court actions provisions	6,936	308	6,628	4,310
Employees provisions	4,112	1,553	2,559	1,132
Unrealized losses on financial assets at fair value through profit or loss	1	1	-	(28)
Tax loss carried forward	80,529	80,529	-	-
Deferred tax in profit and loss account	**127,002**	**76,450**	**50,552**	**(20,166)**
Fair value of available for sale financial assets	(11,306)	(9,452)	(1,854)	9,916
Land and buildings revaluation	(3,349)	244	(3,593)	505
Deferred tax relating to components of other comprehensive income	**(14,655)**	**(9,208)**	**(5,447)**	**10,421**
Total deferred tax	**112,347**	**67,242**	**45,105**	**(9,745)**

14. INCOME TAX (CONTINUED)

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

Based on the successful turnaround process initiated by the new ownership, which led the Group back to the market by implementing a new business strategy, raising the efficiency of operations and the quality service level, from year end 2017 Bank started to recognize again deferred tax assets on existing tax losses carried forward up to the amount of their probable utilization.

15. CASH AND BALANCES WITH CROATIAN NATIONAL BANK

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Cash in hand and on CNB accounts	2,610,524	2,270,861	2,270,861
Nostro accounts and balances with other banks	947,691	302,328	302,328
Total cash and accounts with banks	**3,558,215**	**2,573,189**	**2,573,189**
Obligatory reserve	**1,273,319**	**1,219,595**	**1,219,595**
Total balances with Croatian National Bank	1,273,319	1,219,595	1,219,595
Impairment losses	(14,495)	(27,810)	(27,810)
Total	**4,817,039**	**3,764,974**	**3,764,974**

The Bank calculates obligatory reserves of the Croatian National Bank in the amount of 12% (2016: 12%) of deposits, borrowings, subordinated debt and other financial obligations. At least 70% (2016: 70%) of HRK obligatory reserves and 0% (2016: 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 from January 2016 obligatory reserve is deposited only in HRK. Since May 2016 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 impairment losses of cash and balances with the CNB: HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Impairment losses at the beginning of the year	**27,810**	**28,818**	**28,818**
Net releases charged during the year	(13,315)	(1,008)	(1,008)
Impairment losses at the end of the year	**14,495**	**27,810**	**27,810**

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS, EXCLUDING DERIVATIVES

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Financial assets held for trading:			
Bonds issued by Republic of Croatia	33,447	32,157	32,157
Total	**33,447**	**32,157**	**32,157**

The bonds issued by Republic of Croatia are financial instruments issued in HRK and EUR (2016: HRK and EUR) with interest rates ranging from 1.75% to 3.88% (2016: 2.75% to 5.38%) and with maturities between 2022 and 2023 (2016: 2017 and 2021).

17. PLACEMENTS WITH AND LOANS TO OTHER BANKS

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Deposits	374,943	113,452	113,452
Loans	100,000	-	-
Impairment losses	(2,035)	(908)	(908)
Total	**472,908**	**112,544**	**112,544**

Loans as presented in the table above include loans to domestic banks.

Deposits are with foreign banks from countries members of OECD or members of Addiko Group.

Movement in impairment losses of placements with other banks for the Bank and the Group:

HRK'000

	2017 Unidentified	2016 Unidentified
Impairment losses at the beginning of the year	**908**	**5,469**
Net allowances charged during the year	1,127	(4.561)
Impairment losses at the end of the year	**2,035**	**908**

18. LOANS AND RECEIVABLES

a) By type of customer

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Individuals	6,465,488	7,139,844	7,139,844
Private companies and sole traders	4,612,867	4,682,323	4,682,323
Public sector	395,930	1,856,667	1,856,667
Non-banking financial institutions	126,182	103,013	421,206
Non-profit institutions	4,856	23,729	23,729
Other	19,977	12,027	12,027
Early repayments	(59,391)	(107,778)	(107,778)
Impairment losses	(1,164,557)	(1,368,612)	(1,371,158)
Total	**10,401,352**	**12,341,213**	**12,656,860**

Even though net loans and receivables reduced to HRK 10,401,352 thousand (2016: HRK 12,656,860 thousand) the bank successfully repositioned within the market realizing significant growth of new disbursements in strategic business segments and targeted products. The reduction, however, was mainly result of Banks decision not to reinvest in public sector due to very low market rates, sale of a Retail non-performing portfolio and a large corporate debtor going into default.

Loans as presented in the table above include outstanding repurchase agreements with various corporate clients. These agreements were collateralized with bonds issued by Republic of Croatia in the total amount of HRK 56,039 thousand HRK (2016: 67,371 thousand) and shares of domestic companies in the total amount of HRK 18,690 thousand (2016: treasury bills issued by Ministry of Finance in the total amount of HRK 10,525 thousand).

Position "Early repayments" comprises amounts paid by loan users, based on not-due receivables, that are used for closing receivables when due.

b) Loans to individuals by purpose

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Housing loans	3.938.840	4.964.250	4.964.250
Cash loans	1.706.177	1.086.255	1.086.255
Overdrafts	242.085	271.664	271.664
Mortgage loans	107.269	155.427	155.427
Loans based on credit cards	92.456	103.060	103.060
Car loans	70.331	100.739	100.739
Other loans	298.708	450.826	450.826
Other receivables	9.622	7.623	7.623
Total	**6.465.488**	**7.139.844**	**7.139.844**

18. LOANS AND RECEIVABLES (CONTINUED)

c) By industrial sector

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Individuals	6,465,488	7,139,844	7,139,844
Wholesale and retail trade	1,385,878	1,154,255	1,154,255
Other manufacturing	472,217	534,734	534,734
Hotels and restaurants	411,809	392,879	392,879
Public administration and defense	382,944	844,175	844,175
Other personal service activities	379,249	601,661	601,661
Manufacturing of food products and beverages	353,359	295,559	295,559
Education	331,320	384,244	384,244
Construction	268,523	1,171,375	1,171,375
Agriculture, hunting, forestry and fishing	261,596	431,298	431,298
Real estate business	180,338	91,549	91,549
Financial intermediation	150,138	113,092	431,285
Transport, storage and equipment	143,530	181,701	181,701
Electricity, gas and water supply	102,997	154,463	154,463
Manufacturing of fabricated metal products	99,699	96,116	96,116
Manufacturing of chemicals	72,894	59,436	59,436
Health and social work	47,025	61,262	61,262
Manufacturing of other non-metallic mineral products	23,720	51,595	51,595
Manufacturing of wearing apparel, dressing and dying of fur	11,942	22,751	22,751
Manufacturing of other transport equipment	8,124	4,763	4,763
Other	72,510	30,851	30,851
Subtotal	*11,625,300*	*13,817,603*	*14,135,796*
Early repayments	(59,391)	(107,778)	(107,778)
Impairment losses	(1,164,557)	(1,368,612)	(1,371,158)
Total	**10,401,352**	**12,341,213**	**12,656,860**

18. LOANS AND RECEIVABLES (CONTINUED)

Movement in impairment losses of loans and receivables:

HRK'000

	Group 2017 Specific	Group 2017 Unidentified	Group 2017 Total	Group 2016 Specific	Group 2016 Unidentified	Group 2016 Total
Impairment losses at the beginning of the year	**1,272,497**	**98,661**	**1,371,158**	**1,690,768**	**136,367**	**1,827,135**
Net allowances/(releases) charged during the year	120,674	4,531	125,205	123,474	(33,721)	89,753
Foreign exchange differences	(21,290)	-	(21,290)	(7,645)	-	(7,645)
Sales and write off	(165,817)	-	(165,817)	(468,209)	-	(468,209)
Write off related to conversion of CHF loans	(6,043)	-	(6,043)	(28,404)	-	(28,404)
Transfer to assets held for sale	(138,656)	-	(138,656)	(37,488)	(6,530)	(44,018)
Impairment losses at the end of the year	**1,061,365**	**103,192**	**1,164,557**	**1,272,496**	**96,116**	**1,368,612**

HRK'000

	Bank 2017 Specific	Bank 2017 Unidentified	Bank 2017 Total	Bank 2016 Specific	Bank 2016 Unidentified	Bank 2016 Total
Impairment losses at the beginning of the year	**1,272,497**	**98,661**	**1,371,158**	**1,655,743**	**130,616**	**1,786,359**
Net allowances/(releases) charged during the year	120,674	4,531	125,205	121,010	(31,955)	89,055
Foreign exchange differences	(21,290)	-	(21,290)	(7,644)	-	(7,644)
Sales and write off	(165,817)	-	(165,817)	(468,208)	-	(468,208)
Write off related to conversion of CHF loans	(6,043)	-	(6,043)	(28,404)	-	(28,404)
Transfer to assets held for sale	(138,656)	-	(138,656)	-	-	-
Impairment losses at the end of the year	**1,061,365**	**103,192**	**1,164,557**	**1,272,497**	**98,661**	**1,371,158**

19. AVAILABLE FOR SALE FINANCIAL ASSETS

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Bonds issued by the government	1,894,050	1,674,488	1,674,488
Bonds issued by foreign banks	1,538,010	1,560,203	1,560,203
Bonds issued by foreign governments	834,801	240,240	240,240
Treasury bills of Ministry of Finance	238,322	332,252	332,252
Participations in investment funds	131,766	103,161	103,161
Bonds issued by foreign companies	102,542	-	-
Bonds issued by domestic companies	73,685	80,196	80,196
Equity securities	25,403	21,032	21,032
Impairment losses	(1,986)	(1,985)	(1,985)
Total	**4,836,593**	**4,009,587**	**4,009,587**

Due to not favorable market conditions in public finance segment in Croatia *(low yield environment - levels not acceptable from Bank's profitability point of view)*, coupled with Bank's overall strong liquidity position and international negative money markets interest rate levels *(effecting negatively Bank's cash positions)*, Bank has further increased AFS portfolio investments in 2017. Named action positively influenced Bank's performance with moderate and acceptable risk profile, while at the same time 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 (2016: HRK, USD and EUR) with interest rates from 1.75% to 6.75% (2016: 2.75% to 6.75%) and maturities from 2018 to 2023 (2016: 2017 to 2021).

The bonds issued by foreign banks are financial instruments issued in EUR and USD (2016: EUR and USD) with interest rates from 0.17% to 5.38% (2016: 0.13% to 2.50%) and maturities from 2018 to 2023 (2016: 2017 to 2021).

The bonds issued by foreign governments are financial instruments issued in EUR and USD with interest rates from 0.40% to 6.38% (2016: 1.08% to 4.87%) and maturities from 2018 to 2022 (2016: 2018 to 2021).

The treasury bills issued by the Ministry of Finance are financial instruments in HRK with maturity up to one year and interest rate 0.45% (2016: from 0.87% to 1.46%).

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

The bond issued by a domestic company is a financial instrument issued in USD with interest rate 5.88% and maturity in 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 2017 available for sale financial assets in the amount of HRK 155,406 thousand were pledged as collaterals for payables under repurchase agreements. As at 31 December 2016 available for sale financial assets were not pledged as collateral.

19. AVAILABLE FOR SALE FINANCIAL ASSETS (CONTINUED)

Movements in unrealized gains from financial assets available for sale value adjustment: HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Balance as at 1st January	**8,445**	**47,082**	**47,082**
Total net unrealized (loss)/gain of the year	*52,512*	*(48,554)*	*(48,554)*
Net unrealized gain for the year	62,547	15,832	15,832
Recycled to profit or loss	(10,035)	(64,386)	(64,386)
Net deferred tax	(9,452)	9,917	9,917
Balance as at 31st December	**51,505**	**8,445**	**8,445**

Impairment losses of financial assets available for sale for the Bank and the Group: HRK'000

	2017 Specific	2016 Specific
Impairment losses at the beginning of the year	**1,985**	**2,506**
Allowances charged during the year	1	
Release/write-off of investment in equity securities	-	521
Impairment losses at the end of the year	**1,986**	**1,985**

20. ASSETS ACQUIRED IN LIEU OF UNCOLLECTED RECEIVABLES

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Land and buildings	10,938	10,431	10,431
Impairment losses	(569)	(3)	(3)
Total	**10,369**	**10,428**	**10,428**

Movement in impairment losses of assets acquired in lieu of uncollected receivables: HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Impairment losses at the beginning of the year	**3**	**47,982**	**47,982**
Additions during the year	566	3	3
Disposal	-	(47,982)	(47,982)
Impairment losses at the end of the year	**569**	**3**	**3**

Disposal shown in movement table in 2016 resulted from real-estate and movables sale transaction executed with company H-ABDUCO d.o.o.

21. OTHER ASSETS

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Funds allocated by court order	34,640	-	-
Deferred expenses	12,973	5,835	5,835
Receivables based on card business	4,796	2,918	2,918
Receivables for sold foreign currency	2,044	1,095	1,095
Payments for the purchase price and taxes for the property in the repossession process	1,467	2,361	2,361
Inventories	1,402	1,218	1,218
Receivables for VAT prepayment	965	965	965
Other advances	402	277	277
Receivables for sold securities	4	35,058	35,058
Other assets	6,671	7,757	7,757
Total	**65,364**	**57,484**	**57,484**

Funds allocated by court order as presented in the table above relates to funds allocated to special account for settlement of legal dispute upon completion of proceedings.

22. INVESTMENT PROPERTY

HRK'000

Group and Bank	Investment property
Acquisition cost	
At 1 January 2017	**15,979**
Additions	48
Revaluation	(219)
Disposals	(142)
Transfers from assets acquired in lieu of uncollected receivables	909
Transfers to assets held for sale	(5,310)
At 31 December 2017	**11,265**
Accumulated depreciation	
At 1 January 2017	**3,492**
Depreciation for the year 2017	265
Disposals	(83)
Transfers to assets held for sale	(1,598)
At 31 December 2017	**2,076**
Impairment	
At 1 January 2017	**3,558**
Impairment for the year 2017	16
Disposals	-
Transfers to assets held for sale	(823)
At 31 December 2017	**2,751**
Book value	
1 January 2017	8,929
31 December 2017	**6,438**

The estimated fair value of investment property held by the Group and the Bank as at 31 December 2017 amounted to HRK 9,167 thousand. 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 2017 is as follows:

HRK'000

	2017 Level 1	2017 Level 2.	2017 Level 3	2017 Total
Investment property	-	-	9,167	**9,167**

The property rental income earned by the Group and the Bank from its investment property, all of which was leased out under operating leases, amounted to HRK 2,030 thousand (2016: 4,037 thousand) and is presented within other operating income.

22. INVESTMENT PROPERTY (CONTINUED)

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

HRK'000

Group and Bank	Investment property
Acquisition cost	
At 1 January 2016	**160,704**
Additions	204
Revaluation	(595)
Disposals	(147,837)
Transfers from property, plant and equipment	3,511
Transfers to property, plant and equipment	(8)
At 31 December 2016	**15,979**
Accumulated depreciation	
At 1 January 2016	**7,884**
Depreciation for the year 2016	586
Disposals	(5,091)
Transfers from property, plant and equipment	113
At 31 December 2016	**3,492**
Impairment	
At 1 January 2016	**25,843**
Impairment for the year 2016	(610)
Disposals	(23,197)
Transfers from property, plant and equipment	1,522
At 31 December 2016	**3,558**
Book value	
1 January 2016	126,977
31 December 2016	**8,929**

Information about the fair value hierarchy as at 31 December 2016 is as follows:

HRK'000

	2016 Level 1	2016 Level 2	2016 Level 3	2016 Total
Investment property	-	-	11,668	**11,668**

On 9 March 2016 the net amount of HRK 119,384 thousand of assets was subject to the transaction of sale of real estate executed with company H-ABDUCO d.o.o.

The direct operating expenses relating to the Investment properties that generated revenue during the reporting period amounted to HRK 8 thousand (2016: 81 thousand) while direct operating expenses relating to the Investment properties that did not generate any revenue during the reporting period amounted to HRK 84 thousand (2016: 155 thousand).

23. PROPERTY, PLANT AND EQUIPMENT

HRK'000

Group and Bank	Land and buildings	Computers and other equipment	Assets under construction	Total
Acquisition cost/revalued amount				
At 1 January 2017	**409,538**	**299,739**	**10,730**	**720,007**
Additions	2,830	11,475	7,902	22,207
Transfer from assets under construction	8,936	2,862	(11,798)	-
Revaluation	(713)	-	-	(713)
Disposals	(4,922)	(14,743)	(75)	(19,740)
Transfer to assets held for sale	(46,477)	-	(928)	(47,405)
At 31 December 2017	**369,192**	**299,333**	**5,831**	**674,356**
Accumulated depreciation				
At 1 January 2017	**136,993**	**251,461**	**-**	**388,454**
Depreciation for the year 2017	8,819	12,163	-	20,982
Disposals	(2,638)	(14,407)	-	(17,045)
Transfer to assets held for sale	(22,257)	-	-	(22,257)
At 31 December 2017	**120,917**	**249,217**	**-**	**370,134**
Impairment				
At 1 January 2017	**71,981**	**17,328**	**-**	**89,309**
Impairment for the year 2017	10,435	2,003	1,381	13,819
Disposals	(335)	(334)	-	(669)
Transfer to assets held for sale	(1,460)	-	(635)	(2,095)
At 31 December 2017	**80,621**	**18,997**	**746**	**100,364**
Book value				
1 January 2017	200,564	30,950	10,730	242,244
31 December 2017	**167,654**	**31,119**	**5,085**	**203,858**

Information about the fair value hierarchy as at 31 December 2017 is as follows:

HRK'000

	2017 Level 1	2017 Level 2	2017 Level 3	2017 Total
Land and buildings	-	-	167,654	**167,654**

23. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

HRK'000

Group	Land and buildings	Computers and other equipment	Assets under construction	Total
Acquisition cost/revalued amount				
At 1 January 2016	**423,955**	**647,212**	**11,114**	**1,082,281**
Additions	2,109	26,321	5,314	33,744
Transfer from assets under construction	-	2,936	(2,936)	-
Revaluation	458	-	-	458
Disposals	(13,481)	(125,114)	(2,761)	(141,356)
Transfers from intangible assets	-	579	-	579
Transfers from investment property	8	-	-	8
Transfer to Assets Held for sale	-	(238,561)	-	(238,561)
Transfer to intangible assets	-	(13,635)	-	(13,635)
Transfers to investment property	(3,511)	-	-	(3,511)
At 31 December 2016	**409,538**	**299,738**	**10,731**	**720,007**
Accumulated depreciation				
At 1 January 2016	**135,154**	**389,412**	**-**	**524,566**
Depreciation for the year 2016	9,238	66,171	-	75,409
Disposals	(7,286)	(66,301)	-	(73,587)
Transfers from intangible assets	-	87	-	87
Transfer to Assets Held for sale	-	(126,825)	-	(126,825)
Transfers to intangible assets	-	(11,083)	-	(11,083)
Transfers to investment property	(113)	-	-	(113)
At 31 December 2016	**136,993**	**251,461**	**-**	**388,454**
Impairment				
At 1 January 2016	**78,781**	**2,223**	**-**	**81,004**
Impairment for the year 2016	643	26,026	-	26,669
Disposals	(5,920)	(1,518)	-	(7,438)
Transfer to Assets Held for sale	-	(9,403)	-	(9,403)
Transfers to investment property	(1,523)	-	-	(1,523)
At 31 December 2016	**71,981**	**17,328**	**-**	**89,309**
Book value				
1 January 2016	210,020	255,577	11,114	476,711
31 December 2016	**200,564**	**30,949**	**10,731**	**242,244**

Information about the fair value hierarchy as at 31 December 2016 is as follows:

HRK'000

	2016 Level 1	2016 Level 2	2016 Level 3	2016 Total
Land and buildings	-	-	200,564	**200,564**

23. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

HRK'000

Bank	Land and buildings	Computers and other equipment	Assets under construction	Total
Acquisition cost/revalued amount				
At 1 January 2016	**423,955**	**368,802**	**11,113**	**803,870**
Additions	2,109	8,092	5,314	15,515
Transfer from assets under construction	-	2,936	(2,936)	-
Revaluation	458	-	-	458
Disposals	(13.481)	(18.974)	(2.761)	(35.216)
Transfers from intangible assets	-	579	-	579
Transfers from investment property	8	-	-	8
Transfer to Assets Held for sale	-	(48,062)	-	(48,062)
Transfer to intangible assets	-	(13,634)	-	(13,634)
Transfers to investment property	(3,511)	-	-	(3,511)
At 31 December 2016	**409,538**	**299,739**	**10,730**	**720,007**
Accumulated depreciation				
At 1 January 2016	**135,154**	**289,771**	**-**	**424,925**
Depreciation for the year 2016	9,238	27,006	-	36,244
Disposals	(7.286)	(17,351)	-	(24,637)
Transfers from intangible assets	-	87	-	87
Transfer to Assets Held for sale	-	(36,969)	-	(36,969)
Transfers to intangible assets	-	(11,083)	-	(11,083)
Transfers to investment property	(113)	-	-	(113)
At 31 December 2016	**136,993**	**251,461**	**-**	**388,454**
Impairment				
At 1 January 2016	**78,781**	**1,662**	**-**	**80,443**
Impairment for the year 2016	643	24,873	-	25,516
Disposals	(5.920)	(1.518)	-	(7.438)
Transfer to Assets Held for sale	-	(7,689)	-	(7,689)
Transfers to investment property	(1,523)	-	-	(1,523)
At 31 December 2016	**71,981**	**17,328**	**-**	**89,309**
Book value				
1 January 2016	210,020	77,369	11,113	298,502
31 December 2016	**200,564**	**30,950**	**10,730**	**242,244**

Information about the fair value hierarchy as at 31 December 2016 is as follows:

HRK'000

	2016 Level 1	2016 Level 2	2016 Level 3	2016 Total
Land and buildings	-	-	200,564	**200,564**

The amount of fully depreciated Bank's property, plant and equipment at 31 December 2017 amounts to HRK 258,437 thousand (2016: HRK 242,918 thousand).

23. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The last revaluation of Bank's land and buildings was performed at the end of 2017 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:

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Acquisition cost	353,698	386,830	386,830
Accumulated depreciation	(118,348)	(132,999)	(132,999)
Impairment	(80,621)	(71,981)	(71,981)
Net book value	**154,729**	**181,850**	**181,850**

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

24. INTANGIBLE ASSETS

HRK'000

Group and Bank	Software	Other intangible assets	Assets under construction	Total
Acquisition cost				
At 1 January 2017	**275,792**	**723**	**1,890**	**278,405**
Additions	15,037	-	8,109	23,146
Transfer from assets in construction	4,167	-	(4,167)	-
Disposal	(5,776)	-	(1,127)	(6,903)
At 31 December 2017	**289,220**	**723**	**4,705**	**294,648**
Accumulated amortization				
At 1 January 2017	**241,916**	**723**	**-**	**242,639**
Amortization for the year 2017	8,012	-	-	8,012
Disposal	(5,405)	-	-	(5,405)
At 31 December 2017	**244,523**	**723**	**-**	**245,246**
Impairment				
At 1 January 2017	**553**	**-**	**-**	**553**
Impairment for the year 2017	1,050	-	-	1,050
Disposal	(227)	-	-	(227)
At 31 December 2017	**1,376**	**-**	**-**	**1,376**
Book value				
1 January 2017	33,323	-	1,890	35,213
31 December 2017	**43,321**	**-**	**4,705**	**48,026**

24. INTANGIBLE ASSETS (CONTINUED)

HRK'000

Group	Software	Other intangible assets	Assets under construction	Total
Acquisition cost				
At 1 January 2016	**249,372**	**762**	**4,716**	**254,850**
Additions	8,293	-	4,441	12,734
Transfer from assets under construction	7,230	-	(7,230)	-
Transfers from property, plant and equipment	13,635	-	-	13,635
Transfers to property, plant and equipment	(579)	-	-	(579)
Transfer to Assets Held for sale	(2,159)	(2,159)	(36)	(2,234)
At 31 December 2016	**275,792**	**723**	**1,891**	**278,406**
Accumulated amortization				
At 1 January 2016	**221,971**	**757**	**-**	**222,728**
Amortization for the year 2016	10,965	6	-	10,971
Transfers from property, plant and equipment	11,083	-	-	11,083
Transfers to property, plant and equipment	(87)	-	-	(87)
Transfer to Assets Held for sale	(2,015)	(40)	-	(2,055)
At 31 December 2016	**241,917**	**723**	**-**	**242,640**
Impairment				
At 1 January 2016	**-**	**-**	**-**	**-**
Impairment for the year 2016	553	-	-	553
At 31 December 2016	**553**	**-**	**-**	**553**
Book value				
1 January 2016	27,401	5	4,716	32,122
31 December 2016	**33,322**	**-**	**1,891**	**35,213**

24. INTANGIBLE ASSETS (CONTINUED)

HRK'000

Bank	Software	Other intangible assets	Assets under construction	Total
Acquisition cost				
At 1 January 2016	**247,224**	**723**	**4,715**	**252,662**
Additions	8,293	-	4,405	12,698
Transfer from assets under construction	7,230	-	(7,230)	-
Transfers from property, plant and equipment	13,635	-	-	13,635
Transfers to property, plant and equipment	(579)	-	-	(579)
Transfer to Assets Held for sale	(11)	-	-	(11)
At 31 December 2016	**275,792**	**723**	**1,890**	**278,405**
Accumulated amortization				
At 1 January 2016	**220,119**	**723**	**-**	**220,842**
Amortization for the year 2016	10,812	-	-	10,812
Transfers from property, plant and equipment	11,083	-	-	11,083
Transfers to property, plant and equipment	(87)	-	-	(87)
Transfer to Assets Held for sale	(11)	-	-	(11)
At 31 December 2016	**241,916**	**723**	**-**	**242,639**
Impairment				
At 1 January 2016	-	-	-	-
Impairment for the year 2016	553	-	-	553
At 31 December 2016	**553**	**-**	**-**	**553**
Book value				
1 January 2016	27,105	-	4,715	31,820
31 December 2016	**33,323**	**-**	**1,890**	**35,213**

The amount of fully amortized Bank's intangible assets at 31 December 2017 amounts to HRK 108,410 thousand (2016: HRK 120,138 thousand).

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

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Derivative financial assets	-	21	-
Placements with and loans to other banks	-	334	-
Loans and receivables	88,744	209,085	-
Loans and receivables	227,400	228,070	-
Impairment of loans and receivables	(138,656)	(18,985)	-
Investments in subsidiaries	-	-	4,659
ADDIKO INVEST d.d. Zagreb	-	-	4,659
HYPO ALPE-ADRIA-LEASING d.o.o. u likvidaciji Zagreb	-	-	28,500
Impairment of investment in HYPO ALPE-ADRIA-LEASING d.o.o. u likvidaciji Zagreb	-		(28,500)
Property, plant and equipment	23,414	102,333	3,404
Property, plant and equipment	24,198	105,422	3,404
Impairment of property, plant and equipment	(784)	(3,089)	-
Investment properties	**2,889**	**-**	**-**
Intangible assets	**-**	**180**	**-**
Current tax assets	**-**	**11**	**-**
Other assets	**-**	**13,765**	**-**
Other assets	-	24,145	-
Impairment of other assets	-	(10,380)	-
Total assets	115.047	325.729	8.063
Liabilities	-	20.473	-
Net carrying amount of disposal group	**115.047**	**305.256**	**8.063**

Assets as presented in the table above include the net amount of HRK 654 thousand (2016: 3,404 thousand) of IT related assets, HRK 22,760 thousand of land and buildings and HRK 2,889 thousand of investment properties classified as held for sale as a result of detailed analysis of IT infrastructure activities and IT related assets as well as analysis of property portfolio (see Note 12).

Loans and receivables as at 31 December 2017 presented in the table above include net amount of HRK 88,744 thousand of loans and receivables subject to the transaction of sale of financial assets. Sale transaction was executed on 29 January 2018 with company EOS MATRIX d.o.o..

Following the new strategy to focus on core banking business Management Board of the Bank decided, in 2016, to exit from Asset Management and Brokerage business, as well as Addiko Invest d.d. and the leasing business.

Consequently, the assets of both subsidiaries were classified as held for sale in the 2016 financial statements. In parallel, liabilities of both subsidiaries were shown under position 'Liabilities included in disposal groups classified as held for sale' and mainly consisted of short term liabilities towards the clients, employees and Tax administration.

In course of 2017 Asset Management and Brokerage business, as well as Addiko Invest d.d. were successfully sold while the assets of Hypo Alpe-Adria-Leasing d.o.o. u likvidaciji (finance and operating leasing portfolio) is significantly reduced (for more than HRK 240 million) by regular repayment, refinancing into the Bank and proactive early repayment approach in agreement with the clients. The Management of the Bank has started negotiations for sale of the company with several interested parties and will continue this process in 2018.

26. DUE TO OTHER BANKS

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Deposits	424,030	597,036	597,036
Borrowings	93,644	121,073	121,073
Total	**517,674**	**718,109**	**718,109**

In the total amount of "Due to other banks" the amount of HRK 47,809 thousand (2016: Group HRK 72,503 thousand) relates to loans and deposits from Addiko Bank AG, Vienna.

Contractual interest rates on borrowings as at 31 December 2017 are in the range from 0.00% to 5.61% (31 December 2016: 0.00% to 5.12%).

27. DUE TO CUSTOMERS

Due to customers as at 31 December are presented as follows:

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Deposits from individuals	10,544,164	11,127,863	11,127,863
Deposits from corporate clients	4,609,054	4,069,606	4,085,866
Deposits from public sector	235,201	161,541	161,541
Deposits from non-profit institutions	114,978	139,461	139,461
Payables under repurchase agreements	153,760	-	-
Total	**15,657,157**	**15,498,471**	**15,514,731**

28. PROVISIONS FOR LIABILITIES AND CHARGES

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Legal provisions	92,222	87,345	87,345
Provisions for other employee benefits	25,941	17,034	17,034
Provisions for commitments and contingent liabilities	24,034	44,305	44,346
Provisions for sale of subsidiaries	12,137	22,232	22,232
Provisions for restructuring expenses	4,497	20,993	20,993
Provisions for severance (termination) payments	96	11,099	11,099
Other provisions	15,185	15,206	15,206
Total	**174,112**	**218,214**	**218,255**

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

Bank provided HRK 92,222 thousand (2016: HRK 87,345 thousand) for principal and interest in respect of liabilities for court cases, which the management estimates as sufficient.

The Management considered all litigations in which the Bank is involved as defendant. The Management does not expect additional losses for the Bank.

28. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

Movement in provisions for liabilities and charges of the Group and the Bank:

HRK'000

	Group and Bank 2017 Contingent Liabilities	Group and Bank 2017 Legal cases	Group and Bank 2017 Retirement/ termination	Group and Bank 2017 Other employee benefits	Group and Bank 2017 Restructuring expenses	Group and Bank 2017 Sale of subsidiaries	Group and Bank 2017 Other provisions	Group and Bank 2017 Total
Provisions at the beginning of the year	**44,346**	**87,345**	**11,099**	**17,034**	**20,993**	**22,232**	**15,206**	**218,255**
Charges recognized in statement of profit or loss	9,647	25,218	-	19,491	1,448	-	12,037	67,841
Releases recognized in statement of profit or loss	(29,959)	(20,341)	-	(902)	(880)	-	(9,909)	(61,991)
Utilization	-	-	(11,003)	(9,682)	(17,064)	(10,095)	(2,149)	(49,993)
Provisions at the end of the year	**24,034**	**92,222**	**96**	**25,941**	**4,497**	**12,137**	**15,185**	**174,112**

HRK'000

	Group 2016 Contingent Liabilities	Group 2016 Legal cases	Group 2016 Retirement/ termination	Group 2016 Other employee benefits	Group 2016 Restructuring expenses	Group 2016 Sale of subsidiaries	Group 2016 Other provisions	Group 2016 Total
Provisions at the beginning of the year	**52,887**	**31,565**	**32,636**	**4,603**	**7,062**	**-**	**5,310**	**134,063**
Charges recognized in statement of profit or loss	18,964	64,510	10,007	18,968	20,968	22,232	9,896	165,545
Releases recognized in statement of profit or loss	(28,234)	(7,633)	(7,038)	(5,620)	(2,934)	-	-	(51,459)
Utilization	688	(1,097)	(24,506)	(917)	(4,103)	-	-	(29,935)
Provisions at the end of the year	**44,305**	**87,345**	**11,099**	**17,034**	**20,993**	**22,232**	**15,206**	**218,214**

28. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

HRK'000

	Bank 2016 Contingent Liabilities	Bank 2016 Legal cases	Bank 2016 Retirement/ termination	Bank 2016 Other employee benefits	Bank 2016 Restructuring expenses	Bank 2016 Sale of subsidiaries	Bank 2016 Other provisions	Bank 2016 Total
Provisions at the beginning of the year	**53,575**	**31,309**	**32,636**	**4,603**	**7,062**	**-**	**5,310**	**134,495**
Charges recognized in statement of profit or loss	18,964	63,669	6,740	18,968	20,968	22,232	9,896	161,437
Releases recognized in statement of profit or loss	(28,194)	(7,633)	(7,038)	(5,620)	(2,934)	-	-	(51,418)
Utilization	-	-	(21,239)	(917)	(4,103)		-	(26,259)
Provisions at the end of the year	**44,346**	**87,345**	**11,099**	**17,034**	**20,993**	**22,232**	**15,206**	**218,255**

29. PROVISION FOR LOSSES ON CONVERSION OF CHF LOANS

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Provision at the beginning of the year	**14,930**	**1,559,772**	**1,559,772**
Releases recognized in statement of profit or loss	(723)	(97,366)	(97,366)
Net exchange rate differences	40	(665)	(665)
Utilization	(7,432)	(1,446,811)	(1,446,811)
Provision at the end of the year	**6,815**	**14,930**	**14,930**

Releases of provision recognized in statement of profit or loss amounted to HRK 723 thousand (2016: HRK 97,366 thousand) while total Result on conversion of CHF loans amounted to HRK 5,320 thousand expenses (2016: HRK 68,962 thousand income). Difference in amount of HRK 6,043 thousand (2016: HRK 28,404 thousand) represents the conversion effect on the loans for which provision for conversion loss under IAS 37 was not initially recognized but the conversion was carried out and effects are recognized directly in profit or loss (see Note 18).

30. OTHER LIABILITIES

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Liabilities to suppliers	42,842	43,687	43,687
Payables based on card business	37,572	32,503	32,503
Due to employees	17,303	17,921	17,921
Temporary deposits made as investments in domestic companies	5,913	6,137	6,137
Payables for VAT	4,259	2,131	2,131
Unallocated foreign currency receipts	1,192	540	540
Payables based on securities trading	2	11,588	11,588
Other	9,837	9,210	9,284
Total	**118,920**	**123,717**	**123,791**

31. SUBORDINATED DEBT

Currency	Interest rate	Group and Bank 2017 Amount in Currency '000	Group and Bank 2017 Amount in HRK '000
EUR	7% fixed	100,039	751,657
EUR	6-month EURIBOR+4.52%	138,677	1,041,971
Total			**1,793,628**

Currency	Interest rate	Group 2016 Amount in Currency '000	Group 2016 Amount in HRK '000	Bank 2016 Amount in Currency '000	Bank 2016 Amount in HRK '000
EUR	7% fixed	100,019	755,926	100,019	755,926
EUR	6-month EURIBOR+4.52%	138,661	1,047,970	138,661	1,047,970
Total			**1,803,896**		**1,803,896**

Subordinated debt is to Addiko Bank AG, Vienna with 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.

32. 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:

	2017 HRK '000	2017 %	2016 HRK '000	2016 %
Addiko Bank AG, Vienna	2,558,898	100.00	4,992,972	100.00
Total	**2,558,898**	**100.00**	**4,992,972**	**100.00**

The movement in the number of shares was as follows:

	2017 Shares	2017 HRK '000	2016 Shares	2016 HRK '000
Balance as at 1 January	1,248,243	2,558,898	1,248,243	4,992,972
Balance as at 31 December	**1,248,243**	**2,558,898**	**1,248,243**	**4,992,972**

At the end of 2017 Addiko Bank d.d. had 1,248,243 (2016: 1,248,243) issued ordinary shares of nominal value HRK 2,050 (2016: HRK 4,000).

Decrease in nominal value of ordinary shares in the year 2017 resulted from execution of simplified share capital reduction to cover losses from previous periods in the amount of HRK 2,434,074 thousand.

33. RESERVES

Movement in Group reserves was as follows:

HRK'000

	Legal reserve	Revaluation reserve	Fair value reserve	Other reserves	Total
At 1 January 2016	**125,851**	**16,390**	**47,082**	**1,000**	**190,323**
Net unrealized gain on available for sale financial assets	-	-	15,832	-	15,832
Net realized loss on available for sale financial asset	-	-	(64,386)	-	(64,386)
Revaluation of buildings and land	-	(137)	-	-	(137)
Income tax relating to components of other comprehensive income	-	504	9,917	-	10,421
Transfer to retained earnings	-	(386)	-	-	(386)
Allocation of profit for 2015	200	-	-	-	200
At 31 December 2016	**126,051**	**16,371**	**8,445**	**1,000**	**151,867**
Net unrealized gain on available for sale financial assets	-		62,547	-	62,547
Net realized loss on available for sale financial asset	-		(10,035)	-	(10,035)
Revaluation of buildings and land	-	(931)	-	-	(931)
Transfer to retained earnings		(427)	-	-	(427)
Cover of losses from prior years	(120,547)	-	-	-	(120,547)
Income tax relating to components of other comprehensive income	-	244	(9,452)	-	(9,208)
Other changes	(250)	-	-	(1,000)	(1,250)
At 31 December 2017	**5,254**	**15,257**	**51,505**	**-**	**72,016**

33. RESERVES (CONTINUED)

Movement in Bank reserves was as follows:

HRK'000

	Legal reserve	Revaluation reserve	Fair value reserve	Total
At 1 January 2016	**125,801**	**16,390**	**47,082**	**189,273**
Net unrealized gain on available for sale financial assets	-	-	15,832	15,832
Net realized loss on available for sale financial asset	-	-	(64,386)	(64,386)
Revaluation of buildings and land	-	(137)	-	(137)
Transfer to retained earnings	-	(386)	-	(386)
Income tax relating to components of other comprehensive income	-	504	9,917	10,421
At 31 December 2016	**125,801**	**16,371**	**8,445**	**150,617**
Net unrealized gain on available for sale financial assets	-	-	62,547	62,547
Net realized loss on available for sale financial asset	-	-	(10,035)	(10,035)
Revaluation of buildings and land	-	(931)	-	(931)
Transfer to retained earnings	-	(427)	-	(427)
Cover of losses from prior years	(120,547)	-	-	(120,547)
Income tax relating to components of other comprehensive income	-	244	(9,452)	(9,208)
At 31 December 2017	**5,254**	**15,257**	**51,505**	**72,016**

The legal reserve has been created in accordance with the Croatian Company Act, which requires 5% of the net profit for the year of the Group to be transferred to this reserve, until it reaches 5% of issued share capital of the Group. 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 available for sale, 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.

34. COMMITMENTS AND CONTINGENT LIABILITIES

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Commitments and contingent liabilities			
Unutilized credit lines	1,493,184	1,371,241	1,376,282
Guarantees and letters of credit	430,050	536,814	536,814
Total	**1,923,234**	**1,908,055**	**1,913,096**

Provisions for liabilities and charges are presented in the Note 28.

35. LEASES

Minimum future lease payments based on lease arrangements where the Group or the Bank is a lessee were as follows:

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Not later than 1 year	22,589	30,189	30,117
Later than 1 year but not later than 5 years	48,530	72,173	72,068
Later than 5 years	31,922	25,264	25,264
Total	**103,041**	**127,626**	**127,449**

Minimum future lease receipts based on lease arrangements where the Group or the Bank is a lessor were as follows:

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Not later than 1 year	780	28,867	831
Later than 1 year but not later than 5 years	1,802	29,730	1,225
Later than 5 years	473	771	771
Total	**3,055**	**59,368**	**2,827**

36. DERIVATIVE FINANCIAL INSTRUMENTS

HRK'000

	Group and Bank 2017	Group and Bank 2017	Group and Bank 2017
	Notional amount	Fair value assets	Fair value liabilities
Derivative financial instruments held for trading			
Foreign exchange forward contracts	376,396	1,888	620
Foreign exchange swaps	768,290	1,657	447
Cross currency swaps	691,637	3,152	-
Interest rates swaps	483,575	350	131
Total	**2,319,898**	**7,047**	**1,198**

HRK'000

	Group 2016	Group 2016	Group 2016	Bank 2016	Bank 2016	Bank 2016
	Notional amount	Fair value assets	Fair value liabilities	Notional amount	Fair value assets	Fair value liabilities
Derivative financial instruments held for trading						
Foreign exchange forward contracts	512,178	303	1,557	464,105	303	1,557
Foreign exchange swaps	151,223	102	129	151,223	102	129
Cross currency swaps	92,161	209	151	92,161	209	151
Total	**755,562**	**614**	**1,837**	**707,489**	**614**	**1,837**

37. RELATED PARTY TRANSACTIONS

Addiko Bank d.d., Zagreb and its subsidiaries are directly and indirectly owned by Addiko Bank AG, Vienna, to whom and to whose affiliates, the Group provides banking services. Balances for 2017 contain the amounts for Hypo Alpe-Adria-Leasing d.o.o. – u likvidaciji.

Balances with related parties at 31 December were as follows:

HRK'000

	Group and Bank 2017	Group and Bank 2017	Group and Bank 2017	Group and Bank 2017
	Assets	Liabilities	Contingent liabilities	Collaterals received
Parent company	18,784	1,851,061	-	-
Parent group	116,120	7,132	-	-
Subsidiaries	94,868	283	5,021	-
Key management	13,589	11,547	1,538	11,006
Other	28,522	4,876	144	154
Total	**271,883**	**1,874,899**	**6,703**	**11,160**

HRK'000

	Group 2016	Group 2016	Group 2016	Group 2016
	Assets	Liabilities	Contingent liabilities	Collaterals received
Parent company	8,821	1,878,437	-	-
Parent group	116,064	30,146	1,004	-
Key management	16,071	7,568	1,678	12,097
Other	22,127	40,036	87	5,337
Total	**163,082**	**1,956,186**	**2,768**	**17,435**

HRK'000

	Bank 2016	Bank 2016	Bank 2016	Bank 2016
	Assets	Liabilities	Contingent liabilities	Collaterals received
Parent company	8,821	1,878,437	-	-
Parent group	116,064	30,146	1,004	-
Subsidiaries	351,352	16,336	5,041	-
Key management	14,583	6,608	1,514	11,221
Other	23,615	40,996	250	6,213
Total	**514,435**	**1,972,523**	**7,809**	**17,434**

Assets with related parties include mostly granted loans, participations in investment funds, 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.

Contingent liabilities include mostly undrawn credit lines and unused card limits.

37. RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with related parties were as follows:

HRK'000

	Group and Bank 2017	Group and Bank 2017	Group and Bank 2017	Group and Bank 2017	Group and Bank 2017
	Interest income	Other income	Interest expenses	Rental expenses	Other expenses
Parent company	2,887	25,542	102,019	-	10,581
Parent group	3,855	7,661	18	-	81
Subsidiaries	3,320	743	4	1,309	-
Key management	493	70	110	-	233
Other	18	107	78	-	542
Total	**10,573**	**34,123**	**102,229**	**1,309**	**11,437**

HRK'000

	Group 2016	Group 2016	Group 2016	Group 2016
	Interest income	Other income	Interest expenses	Other expenses
Parent company	2.835	3.855	116.285	22.032
Parent group	92	6.660	21	1
Key management	578	75	97	95
Other	44	1.318	473	-
Total	**3.549**	**11.909**	**116.876**	**22.129**

HRK'000

	Bank 2016	Bank 2016	Bank 2016	Bank 2016	Bank 2016
	Interest income	Other income	Interest expenses	Rental expenses	Other expenses
Parent company	2,835	3,855	116,285	-	21,996
Parent group	92	6,660	21	-	1
Subsidiaries	13,098	2,324	139	1,417	-
Key management	564	70	78	-	95
Other	58	1,324	492	-	-
Total	**16,647**	**14,233**	**117,015**	**1,417**	**22,092**

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 data transfers, project costs and similar other expenses.

37. RELATED PARTY TRANSACTIONS (CONTINUED)

Key management compensation

The Group considers that the key management personnel include Management Board and Supervisory Board members, as well as executive directors directly responsible to the Management Board.

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

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Salaries and other short-term benefits			
Net salaries	18,002	16,665	15,004
Tax and surtax expenses	9,495	10,016	9,290
Contributions on salaries	5,396	5,396	4,885
Pension insurance expenses	3,874	4,406	3,827
Total salaries and other short-term benefits	***36,767***	***36,483***	***33,006***
Termination benefits			
Net salaries	207	1,918	1,808
Pension insurance expenses	19	409	357
Tax and surtax expenses	31	1,667	1,570
Contributions on salaries	16	638	594
Total termination benefits	***273***	***4,632***	***4,329***
Total	**37,040**	**41,115**	**37,335**

Compensation to the Supervisory Board members for the year 2017 amounted to HRK 230 thousand (2016: HRK 140 thousand).

38. CASH AND CASH EQUIVALENTS

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

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Cash in hand, nostros and funds on CNB accounts	3,558,215	2,573,189	2,573,189
Placements with and loans to other banks with original maturity up to 3 months	362,181	-	-
Total	**3,920,396**	**2,573,189**	**2,573,189**

39. 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 Group 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 available for sale 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 available for sale financial assets) is either based on available market prices, or it is based on NPV (net present value) of discounted cash flow models, so called: theoretical price. In case where there are no market prices available, the Bank estimates the fair value of security under the prescribed procedures such as using amortizing cost for debt securities 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 difference between NPV's 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. That said, fair value of loans and receivables is calculated only for balance sheet items for which no impairment was booked. Namely, fair value for exposure with booked impairments is assumed to be equal to nominal net exposure of the same items. Also in this context, fair value of loans and receivables is calculated only for items which have not matured.

Fair value calculation of loans and receivables was further upgraded in 2015 in order to involve a more 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.

The following table presents the comparison of the consolidated carrying amounts and fair values as at 31 December 2017 and 31 December 2016:

HRK'000

	2017 Carrying amount	2017 Fair value	2016 Carrying amount	2016 Fair value
Loans and receivables	12,203,870	12,779,558	13,704,269	13,152,370
Due to customers	17,554,065	18,155,628	17,448,520	17,368,902

39. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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 2017 and 31 December 2016:

HRK'000

	2017 Level 1	2017 Level 2	2017 Level 3	2017 Total
Financial assets at fair value through profit or loss				
Securities held for trading	33,447	-	-	33,447
Derivative financial assets	-	5,669	1,378	7,047
Available for sale financial assets				
Securities available for sale	4,443,088	370,089	23,416	4,836,593
Total financial assets	**4,476,535**	**375,758**	**24,794**	**4,877,087**
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	-	(1,198)	-	(1,198)
Total financial liabilities	**-**	**(1,198)**	**-**	**(1,198)**

HRK'000

	2016 Level 1	2016 Level 2	2016 Level 3	2016 Total
Financial assets at fair value through profit or loss				
Securities held for trading	32,157	-	-	32,157
Derivative financial assets	-	614	-	614
Available for sale financial assets				
Securities available for sale	3,555,123	435,413	19,052	4,009,588
Total financial assets	**3,587,280**	**436,027**	**19,052**	**4,042,359**
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	-	(660)	(1,177)	(1,837)
Total financial liabilities	**-**	**(660)**	**(1,177)**	**(1,837)**

During the year 2017 and 2016 no transfers between Level 1 and Level 2 occurred, as well as into and out of Level 3. There were also no changes to the methodology used in determining levels of the fair value hierarchy.

39. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

HRK'000

	At 1 January 2017	Disposal	Total gains/ (losses) recorded in profit or loss	Total gains recorded in other comprehensive income	At 31 December 2017
Available for sale financial assets:					
Equity securities	19,052	(5)	(4)	4,373	23,416
Financial assets at fair value through profit or loss:					
Derivative financial assets	-		1,378	-	1,378
Total level 3 financial assets	**19,052**	**(5)**	**1,374**	4,373	**24,794**
Financial liabilities at fair value through profit or loss:					
Derivative financial liabilities	(1,177)		1,177	-	-
Total level 3 financial liabilities	**(1,177)**		**1,177**	-	**-**

HRK'000

	At 1 January 2016	Acquisition	Total gains/ (losses) recorded in profit or loss	At 31 December 2016
Available for sale financial assets:				
Equity securities	60,032	14,435	(55,415)	19,052
Financial assets at fair value through profit or loss:				
Derivative financial assets	1,281	-	(1,281)	-
Total level 3 financial assets	**61,313**	**14,435**	**(56,696)**	**19,052**
Financial liabilities at fair value through profit or loss:				
Derivative financial liabilities	(46,877)	-	45,700	(1,177)
Total level 3 financial liabilities	**(46,877)**	**-**	**45,700**	**(1,177)**

40. RISK MANAGEMENT

This note provides details of the Bank risk exposure (As Hypo Alpe-Adria-Leasing d.o.o. u likvidaciji is the only company in 100% ownership of the Bank and given that its asset is reduced below EUR 10 million at the end of 2017 it is considered as non-material subsidiary and due to that reason only Bank standalone risk exposure is shown). Bank risk exposure is defined as the amount on-balance items as well as off-balance items, which are not decreased for amount of allocated risk provisions.

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 reasons, 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.

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.

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 proscribed within Risk Strategy and a number of related policies, regulations and directives in which the basic guidelines according to law regulations and 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.

40.1. Credit Risk

Credit risk is defined as a possible loss that could occur due to non-fulfillment 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 and Currency 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

40. RISK MANAGEMENT (CONTINUED)

to pay obligations, and by changing loan limits when needed according to internal procedures and regulations proscribed 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 and quarterly basis, through reports which present current status and movement trends in the Bank portfolio, utilization of limits and portfolio quality indicators overview, these reports enable effective risk management and efficient decision making.

Hence, the automated production of strategically important reports (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.

For the purposes of internal capital adequacy of credit risk calculation, at the moment the Bank uses standardized approach meaning that the risk level is calculated as the 8% of the risk weighted assets according to the Regulation EU No 575/2013 and Croatian National Bank Decision on the internal capital adequacy assessment process for credit institutions.

In this way credit risk is directly involved in the ICAAP process. Even though the mentioned regulatory method is simple, the Bank finds it adequate and conservative at this moment.

Within the standardized approach and for the purposes of internal credit risk management, the Bank uses the following mitigation techniques:

- Funded credit protection
- Unfunded credit protection

40.1.1.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/analyzing limits for credit risk.

40.1.2.Currency induced credit risk (CICR)

Currency induced credit risk is the risk of loss for the credit institution which approves loans in foreign currency

40. RISK MANAGEMENT (CONTINUED)

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'.

40.1.3.Country risk

Country risk refers to the ability and willingness of borrowers within a country to meet their obligations towards the credit institution, it is thus a credit risk on obligations advanced across borders.

Country Risk is a combination of:

- Transfer Risk (for cross boarder) and
- Currency induced credit risk (for currency mismatch).

Country risk is the risk arising from international transactions, and in that time, except for a standard credit risk, the Bank is also subject to risk arising from the conditions in the home country of the foreign borrower or counterparty.

Country risk includes the entire range of risks arising from the economic, political and social environment in the home country of the foreign borrower that may have potential impacts on the foreign debt and equity investments in that country. Transfer risk lies more in the ability of the borrower to obtain the foreign currency needed to service its cross-border debts and other contractual obligations.

In accordance with the Bank's internal regulations, transfer risk has to be considered for cross-border transactions with countries that are not members of the European Monetary Union.

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.

40.1.4.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.

Since the Bank uses standardized approach for calculation of internal capital requirement for credit 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.

40. RISK MANAGEMENT (CONTINUED)

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.

40.1.5. 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.

40.1.6. 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.

40.1.7. Macroeconomic risk

Macroeconomic risk is defined as a risk of indirect loss which occurs due to negative/unfavorable 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.

40.1.8. 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

40. RISK MANAGEMENT (CONTINUED)

40.1.9.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.

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.

40.1.10.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 calculation according to regulatory criteria is generated by Accounting and Reporting sector, and this according to formula prescribed by the Regulation (EU) no. 575/2013, article 384 under the standardized method.

40.1.11.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.

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 fulfill 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.

Collateral types and collateral amounts depend on the client credit risk assessment, and their acceptability and evaluation is regulated by internal act "Procedure for collateral monitoring".

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.

40. RISK MANAGEMENT (CONTINUED)

40.1.11.Counterparty risk (continued)

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, i.e. estimated value was decreased by certain percentage, depending on the collateral type.

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 and local authority's guarantees and banking guarantees.

40. RISK MANAGEMENT (CONTINUED)

Exposures and collaterals at 31 December 2017 and 31 December 2016 were as follows:

HRK'000

Type of exposure	2017 Exposure amount	2017 Collateral amount	2016 Exposure amount	2016 Collateral amount
Loans to corporate clients				
Investment loans	1,328,822	763,138	1,482,661	822,624
Working capital loans	1,872,051	362,612	2,210,037	487,710
Project finance loans	27,584	26,147	56,928	53,114
Lombard loans	22,735	22,768	24,166	24,156
Restructuring loans	355,049	249,562	460,894	343,676
Subsidized loans	122,784	108,318	139,909	116,065
Tourism financing loans	1,285	1,187	3,700	3,373
Agriculture financing loans	26,745	22,117	48,982	33,927
Loans from CBRD funds	344,834	256,616	477,827	365,442
Finance Leasing	98,610	84,303	-	-
Other loans	2,975,459	348,122	3,006,071	1,308,163
Purchased receivables	34,377	-	1,177	79
Subtotal	7,210,335	2,244,890	7,912,352	3,558,328
Loans to retail clients				
Housing loans	4,089,608	2,920,249	4,910,206	3,289,119
Loans for cars purchasing	77,629	61,094	116,653	100,474
Non-purpose loans	1,887,531	183,221	1,314,225	249,507
Other loans	772,992	81,501	896,476	93,780
Subtotal	6,827,760	3,246,065	7,237,561	3,732,881
Card products	326,560	1,240	359,556	1,380
Guarantees	462,748	165,809	565,700	249,081
Letters of credit	7,908	5,307	3,040	1,604
Unutilized credit lines	382,153	40,071	400,743	58,397
Subtotal	***15,217,464***	***5,703,381***	***16,478,952***	***7,601,671***
Fair value exposure	4,877,355	-	4,042,383	-
Participation	-	-	4,659	-
Total	**20,094,818**	**5,703,381**	**20,525,994**	**7,601,671**

Types of collaterals at 31 December 2017 and 31 December 2016 considered in the analysis above were as follows:

HRK'000

	2017	2016
Real estate and land mortgages	4,880,846	5,712,669
Liens over movables	267,178	205,496
Cash deposits	239,610	279,393
Guarantees	62,349	1,044,732
Insurance policies	62,788	104,097
Other collaterals	190,609	255,283
Total	**5,703,381**	**7,601,671**

40. RISK MANAGEMENT (CONTINUED)

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, regions). 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 – placements of risk category A for which no objective evidence for impairment is identified,
- amount of not impaired 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) – placement of risk category A,
- impaired exposure on individual and collective basis (partly recoverable placements – risk category B and fully irrecoverable placements – risk category C).

Placements classified into risk category A are as follows:

- the present financial position of a debtor and the estimated future cash flows do not threaten his future operation and settling of current and future liabilities towards Bank and other creditors,
- the debtor settles his/her liabilities towards a credit institution within the contractual time limits, and only exceptionally and occasionally, after the due date,
- placements are secured by eligible instruments of collateral.

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 receivable 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 2017 in credit risk exposure and credit risk quality of ABC 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 non – purpose loans in Retail segment in the same period.

Also, decrease of impaired asset (NPL portfolio) in Retail segment is influenced by portfolio sales of secured portfolio (housing loans) and unsecured portfolio. Combined with strong collection and rehabilitation activities in all segments, this was the main driver for offsetting the new NPL migration influenced predominately by one Corporate group of borrowers.

Movements per segment and product type, divided to time buckets are showed in following tables.

40. RISK MANAGEMENT (CONTINUED)

Credit quality at 31 December 2017 was as follows:

HRK'000

Type of exposure	Neither past due nor impaired	Exposure in delay not impaired	Exposure in delay less than 30 days	Exposure in delay 31 to 60 days	Exposure in delay 61 to 90 days	Exposure in delay more than 91 days	Impaired Asset Individual/ Collective	Total exposure
Loans to corporate clients								
Investment loans	1,183,313	3,379	3,379	-	-	-	142,130	1,328,822
Working capital loans	1,594,437	7,425	6,258	351	816	-	270,189	1,872,051
Project finance loans	18,367	-	-	-	-	-	9,217	27,584
Lombard loans	22,735	-	-	-	-	-	-	22,735
Restructuring loans	228,655	168	168	-	-	-	126,226	355,049
Subsidized loans	97,015	37	22	-	15	-	25,732	122,784
Tourism financing loans	1,285	-	-	-	-	-	-	1,285
Agriculture financing loans	16,362	-	-	-	-	-	10,384	26,745
Loans from CBRD funds	306,822	1,668	649	1,019	-	-	36,343	344,834
Finance Leasing	98,610	-	-	-	-	-	-	98,610
Other loans	2,652,392	7,149	7,125	2	-	21	315,918	2,975,459
Purchased receivables	34,207	-	-	-	-	-	170	34,377
Subtotal	6,254,201	19,826	17,601	1,372	832	21	936,308	7,210,335
Loans to retail clients								-
Housing loans	3,309,198	92,566	74,468	12,590	5,257	251	687,844	4,089,608
Loans for cars purchasing	66,584	390	285	105	-	-	10,655	77,629
Non-purpose loans	1,756,963	37,523	28,280	4,642	4,601	-	93,045	1,887,531
Other loans	663,762	16,527	13,346	1,758	1,413	11	92,702	772,992
Subtotal	5,796,507	147,006	116,380	19,094	11,270	262	884,246	6,827,760
Card products	312,357	2,275	1,815	333	128	-	11,928	326,560
Guarantees	381,331	4,587	4,587	-	-	-	76,831	462,748
Letters of credit	7,908	-	-	-	-	-	-	7,908
Unutilized credit lines	376,119	3,813	3,813	-	-	-	2,221	382,153
Subtotal	***13,128,422***	***177,508***	***144,196***	***20,799***	***12,230***	***283***	***1,911,534***	***15,217,464***
Fair value exposure	4,877,355	-	-	-	-	-	-	4,877,355
Total	**18,005,777**	**177,508**	**144,196**	**20,799**	**12,230**	**283**	**1,911,534**	**20,094,818**

40. RISK MANAGEMENT (CONTINUED)

Credit quality at 31 December 2016 was as follows:

HRK'000

Type of exposure	Neither past due nor impaired	Exposure in delay not impaired	Exposure in delay less than 30 days	Exposure in delay 31 to 60 days	Exposure in delay 61 to 90 days	Exposure in delay more than 91 days	Impaired Asset Individual/ Collective	Total exposure
Loans to corporate clients								
Investment loans	1,258,801	70,360	65,784	4,576	-	-	153,500	1,482,661
Working capital loans	1,978,870	77,853	77,362	491	-	-	153,315	2,210,037
Project finance loans	55,385	-	-	-	-	-	1,542	56,928
Lombard loans	24,166	-	-	-	-	-	-	24,166
Restructuring loans	322,887	5,752	2,620	327	2,394	411	132,255	460,894
Subsidized loans	98,246	41	16	7	18	-	41,623	139,909
Tourism financing loans	2,330	-	-	-	-	-	1,371	3,700
Agriculture financing loans	17,732	18,129	-	18,129	-	-	13,121	48,982
Loans from CBRD funds	426,813	17,516	13,695	1,035	1,146	1,640	33,499	477,827
Finance Leasing	-	-	-	-	-	-	-	-
Other loans	2,923,465	2,848	2,044	671	-	133	79,758	3,006,071
Purchased receivables	768	239	239	-	-	-	170	1,177
Subtotal	7,109,463	192,736	161,760	25,235	3,557	2,183	610,153	7,912,352
Loans to retail clients								
Housing loans	3,855,381	112,810	73,240	22,702	12,812	4,056	942,016	4,910,206
Loans for cars purchasing	103,569	553	197	277	79	-	12,531	116,653
Non-purpose loans	1,177,765	26,910	20,120	4,563	2,227	-	109,550	1,314,225
Other loans	766,814	23,664	17,970	3,374	1,838	481	105,998	896,476
Subtotal	5,903,529	163,937	111,527	30,916	16,957	4,537	1,170,095	7,237,561
Card products	342,712	2,473	2,057	351	44	20	14,372	359,556
Guarantees	400,221	22,349	15,478	3,356	-	3,514	143,130	565,700
Letters of credit	3,036	3	3	-	-	-	-	3,040
Unutilized credit lines	368,391	25,958	19,912	6,046	-	-	6,394	400,743
Subtotal	***14,127,352***	***407,456***	***310,737***	***65,905***	***20,558***	***10,255***	***1,944,144***	***16,478,952***
Fair value exposure	4,042,383	-	-	-	-	-	-	4,042,383
Participation	4,659	-	-	-	-	-	-	4,659
Total	**18,174,395**	**407,456**	**310,737**	**65,905**	**20,558**	**10,255**	**1,944,144**	**20,525,994**

40. RISK MANAGEMENT (CONTINUED)

The primary purpose of credit related commitments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans or guarantees. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

As mentioned under the point 40.1.1., concentration risk arises from each individual, direct or indirect, exposure towards one client, or a group of related parties, or a group of exposures connected by common risk factors. The maximum exposure to individual client at 31 December 2017 excluding Republic of Croatia amounts to HRK 492,805 thousand (2016: HRK 473,483 thousand), without taking into account the amounts decreasing the total Bank's exposure or estimated values of collaterals obtained.

The exposure to any borrower (including banks) is further restricted by sublimit covering on- and off-balance sheet exposures which are set by the Credit Committee. The maximum credit risk exposure, ignoring the fair value of any collateral, in the event other parties fail to meet their obligations under financial instruments, is equal to the carrying value of financial assets as presented in the accompanying financial statements and the disclosed financial commitments.

Majority of Bank's operations are performed in the Republic of Croatia, thus majority of credit risk is limited to the Republic of Croatia.

Credit risk by the type of financial assets

Credit risk by the type of financial assets for loans and similar receivables is monitored using internal classification of credit risk, required by the CNB Decision on the classification of placements and off-balance sheet liabilities of credit institutions.

Category A includes all receivables for which the Bank expects to collect full contracted amounts, including principle and interest. The Bank classifies all placements by their first approval in the risk category A. Category B includes receivables for which the Bank expects partly recoverable receivables, according to the amount of identified loss: risk category B-1 (placements for which the identified loss does not exceed 30% of the carrying amount of an individual placement), risk category B-2 (placements for which the identified loss is between 30% and 70% of the carrying amount of an individual placement) and B-3 (placements for which the identified loss is between 70% and less than 100% of the carrying amount of an individual placement). Category C includes receivables for which the Bank does not expect collections.

At 31 December 2017 in the total amount of placements classified into risk categories of HRK 23,631,863 thousand (2016: HRK 23,699,896 thousand) the amount of HRK 16,832,776 thousand (2016: HRK 17,709,618 thousand) relates to loans and receivables of category A.

40.2. 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.

40. RISK MANAGEMENT (CONTINUED)

40.2.1.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).

Under the internal model, the variance-covariance method is used for the calculation of VaR for interest rate risk measurement in the Bank Book, based on the JP Morgan Risk Metrics approach. 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 2017:

Value at Risk	HRK’000	HRK’000	HRK’000	HRK’000
Risk category	Minimum	Maximum	Average	End of year
Interest rate risk - trading book	35	153	83	58
Interest rate risk - banking book	911	4,270	2,119	4,270
Credit spread risk	776	3,491	2,221	776
Currency risk	47	482	215	186
Total*	**1,769**	**8,396**	**4,637**	**5,291**

The following table presents VaR trends of specific risk factors during the year 2016:

Value at Risk	HRK’000	HRK’000	HRK’000	HRK’000
Risk category	Minimum	Maximum	Average	End of year
Interest rate risk - trading book	1	174	64	156
Interest rate risk - banking book	1,981	7,333	4,755	2,497
Credit spread risk	991	3,948	2,227	3,405
Currency risk	127	1,062	364	38
Total*	**3,100**	**12,517**	**7,411**	**6,096**

* Correlation effects are not considered in the above analysis.

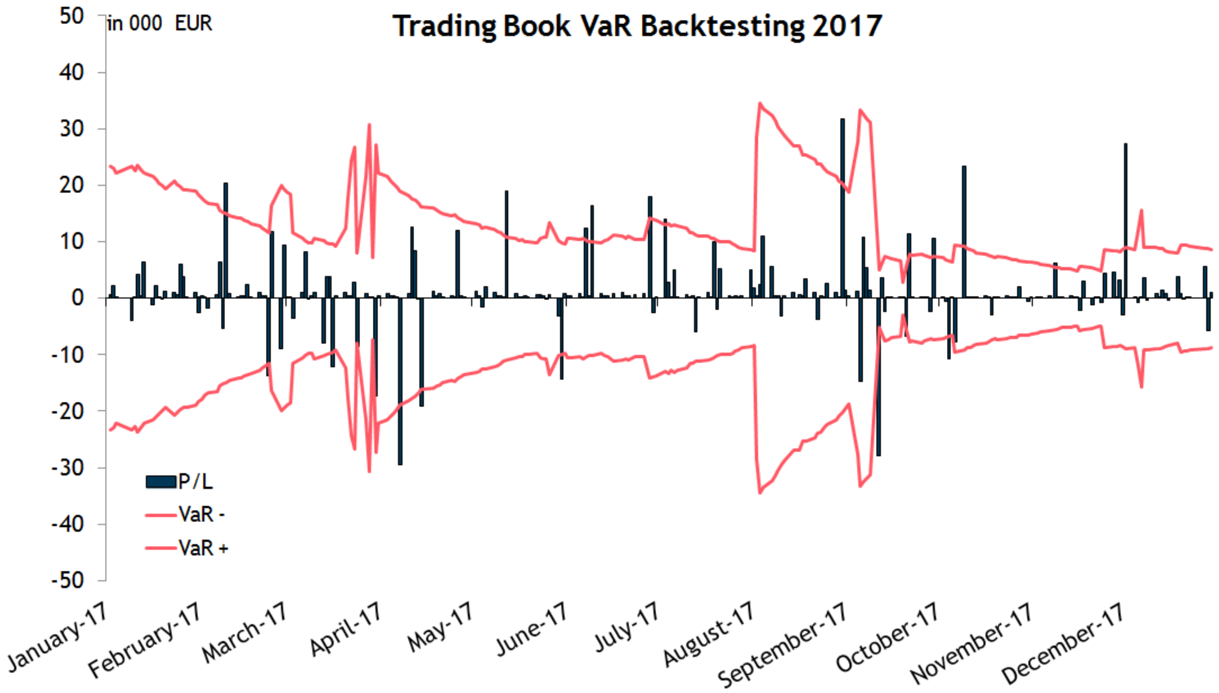
40. RISK MANAGEMENT (CONTINUED)

Comparing end of year figures, decrease of total risk amount in 2017 is mainly influenced by decrease of VaR for credit spread risk amid the underlying structure of portfolio in combination with lower volatility of CDS and correlation effects. On the other hand, increase of VaR for interest rate risk in banking book is driven by higher balance on EUR securities portfolio position and higher volume on customer loan positions causing higher contribution of HRK items. This increase is partially offset by partly hedged USD bond portfolio and decreased interest rate volatility from middle to the long end of the curve. Comparing year average figures, the biggest reason for lower figure in 2017 comes from high base effects in interest rate risk in banking book, with the 2017 marking a full-year effect after the previous conversion of the CHF loan portfolio.

40.2.2. Back testing

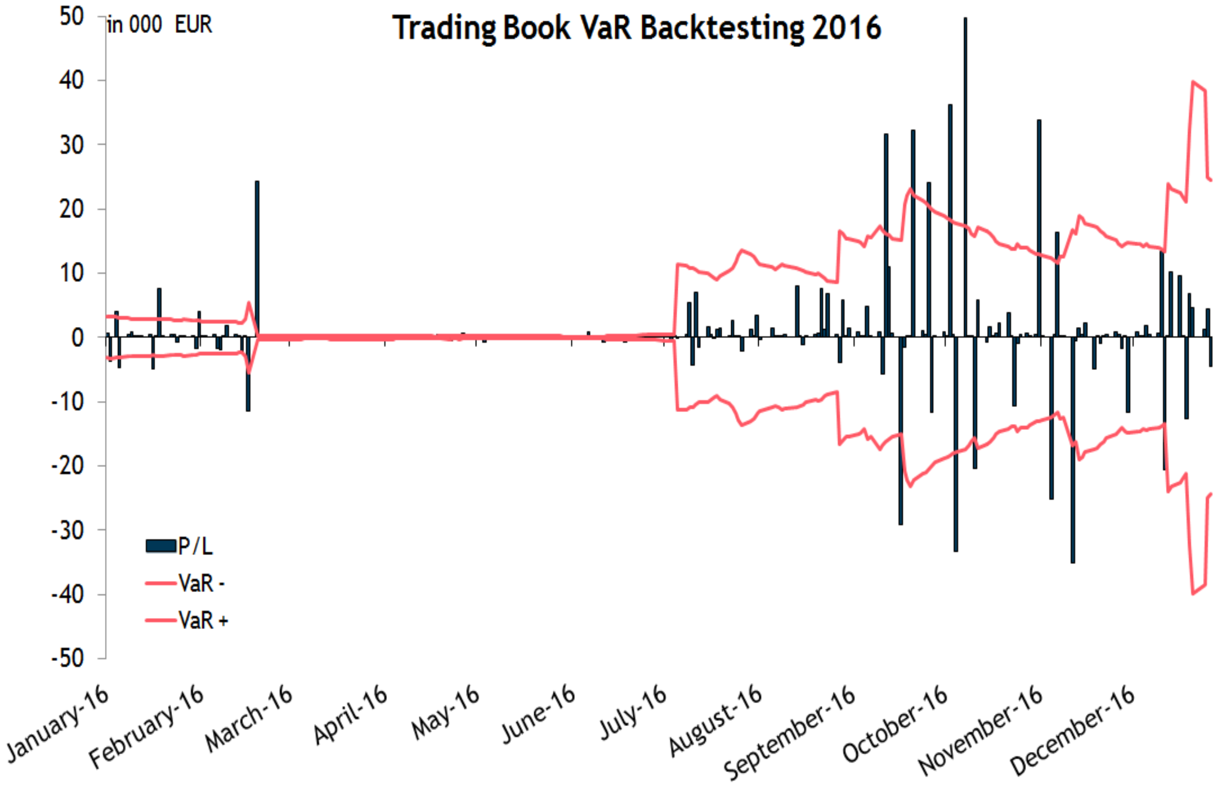
Back testing is an evaluation process of VaR model by applying the model calculations on realized historical performance. The Bank thus determines the deviation magnitude of realized performance against the results assumed by the VaR model. Back testing is based on Trading Book dataset in order to determine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

The following graph shows back testing of VaR model in relation to daily changes of profit or loss in trading book for 2017:



40. RISK MANAGEMENT (CONTINUED)

Following graph shows back testing of VaR model in relation to daily changes of profit or loss in the Trading Book for 2016:



Back testing results of VaR model shows that loss performance has exceeded VaR figures in 9 cases. The number of exceeds of VaR figures counts for 4% share of total observations in 2017. 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.

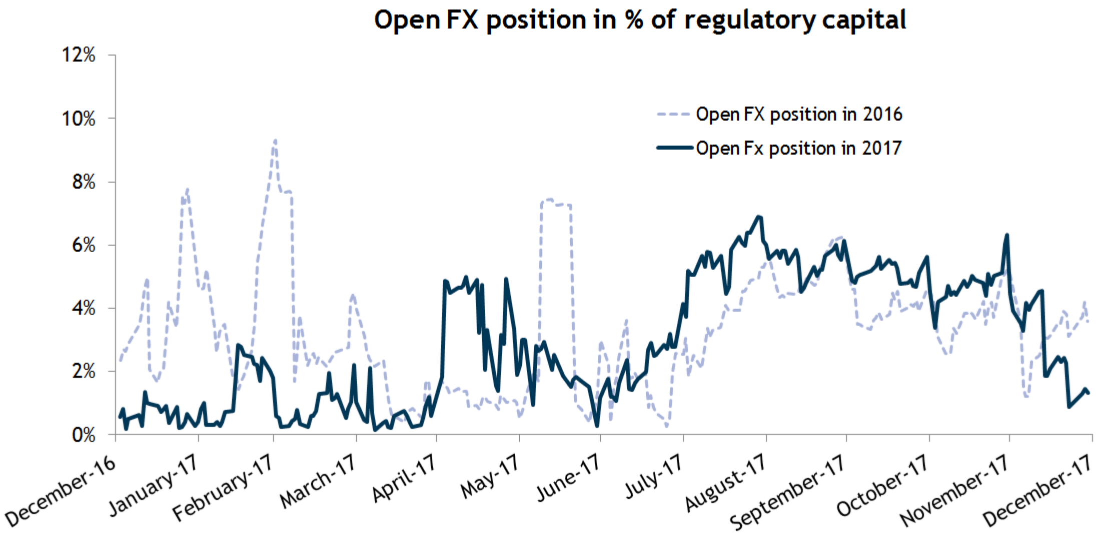
40.2.3. Foreign currency risk

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 2017, the Bank has continued with conservative strategy towards foreign currency risk exposure limited at EUR 240 thousand (equivalent to HRK 1,803 thousand) via internal Monte Carlo-based VaR calculation, whereas average total open FX position volume was 16% lower compared to 2016.

40. RISK MANAGEMENT (CONTINUED)

The following graph shows comparison in movements of open foreign currency position related to regulatory capital for the year 2017 and 2016:



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.

The following table presents the open FX position with the anticipated net profit or loss effect as of 31 December 2017:

	EUR	USD	CHF	CAD	Other
Open FX position	(45,376)	7,484	(5,052)	1,191	2,175
Net profit or loss effect	(4,538)	748	(505)	119	218

The following table presents the net FX position with the net profit or loss effect as at 31 December 2016:

HRK'000

	EUR	USD	CHF	RSD	Other
Open FX position	2,272	3,137	(5,113)	481	2,852
Net profit or loss effect	227	314	(511)	48	285

All limits for open FX position were respected thorough whole 2017. Monthly average total open FX position volume was in range from around EUR 4 million to EUR 29 million, with EUR positions 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.

40. RISK MANAGEMENT (CONTINUED)

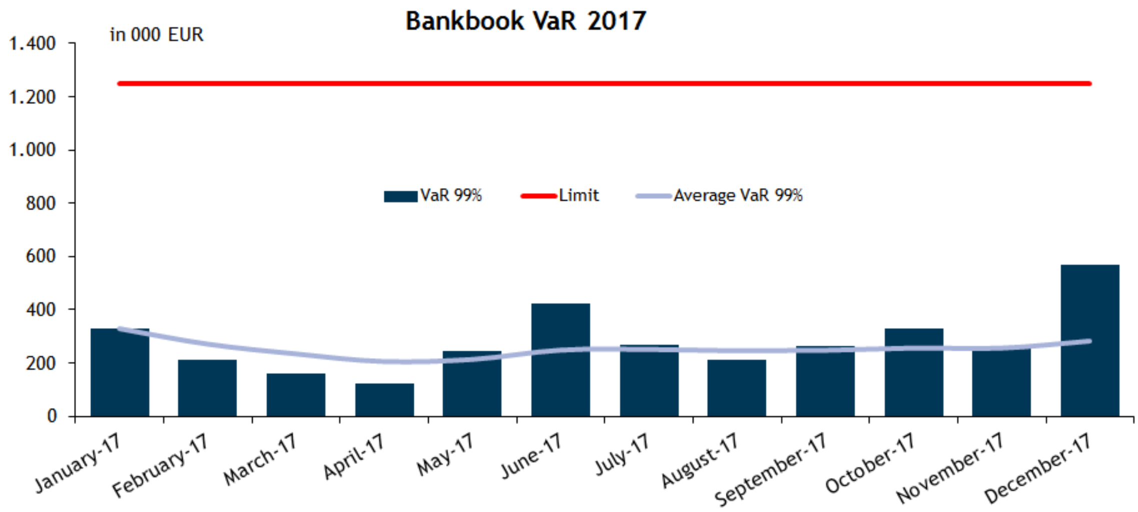
40.2.4.Interest rate risk

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 gap 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 remained largely stable during 2017, with the inclusion of new lending with fixed interest rates and mid-term maturities as the key change on the asset side compared with previous periods. The structure of the Bank's funding has in this respect still prevented a material increase in interest rate risk. Furthermore, 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.

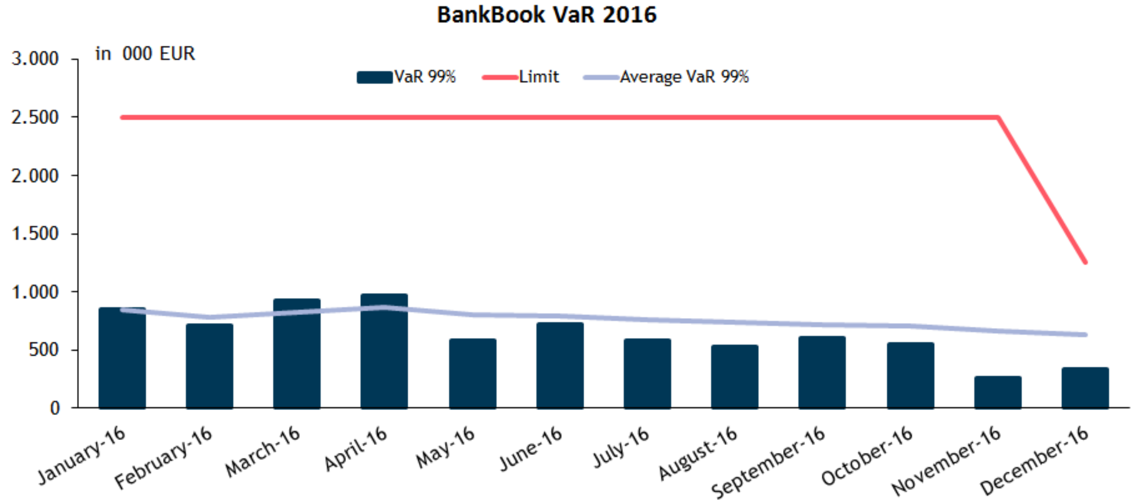
Internal VaR limit for interest rate risk in the Bank Book was maintained at EUR 1,250 thousand during 2017 or HRK 9,422 thousand.

VaR limit monitoring and average usage of given limits for interest rate risk for 2017 is shown in the graph below:



40. RISK MANAGEMENT (CONTINUED)

VaR limit monitoring and average usage of given limits for interest rate risk for 2016 is shown in the graph below:



Increase of risk amount in December 2017 is driven by higher balance on EUR securities portfolio position and higher volume on customer loan positions, causing higher contribution of the HRK items.

Interest GAP Balance as at 31 December 2016 is as follows:

HRK'000

	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	1,973,441	706,344	859,088	8,034,175	1,043,719	1,260,667	3,720,788	3,532,277	21,130,499
Liabilities	(3,279,392)	(1,098,575)	(1,303,370)	(6,504,460)	(2,035,100)	(684,245)	(2,918,099)	(3,307,258)	(21,130,499)
Interest GAP	**(1,305,952)**	**(392,231)**	**(444,282)**	**1,529,715**	**(991,382)**	**576,422**	**802,690**	**225,019**	**-**
Interest GAP (%)	**(6.15%)**	**(1.85%)**	**(2.10%)**	**7.22%**	**(4.68%)**	**2.72%**	**3.79%**	**1.06%**	**0.00%**

Interest GAP Balance for on-balance sheet positions as at 31 December 2016 is as follows:

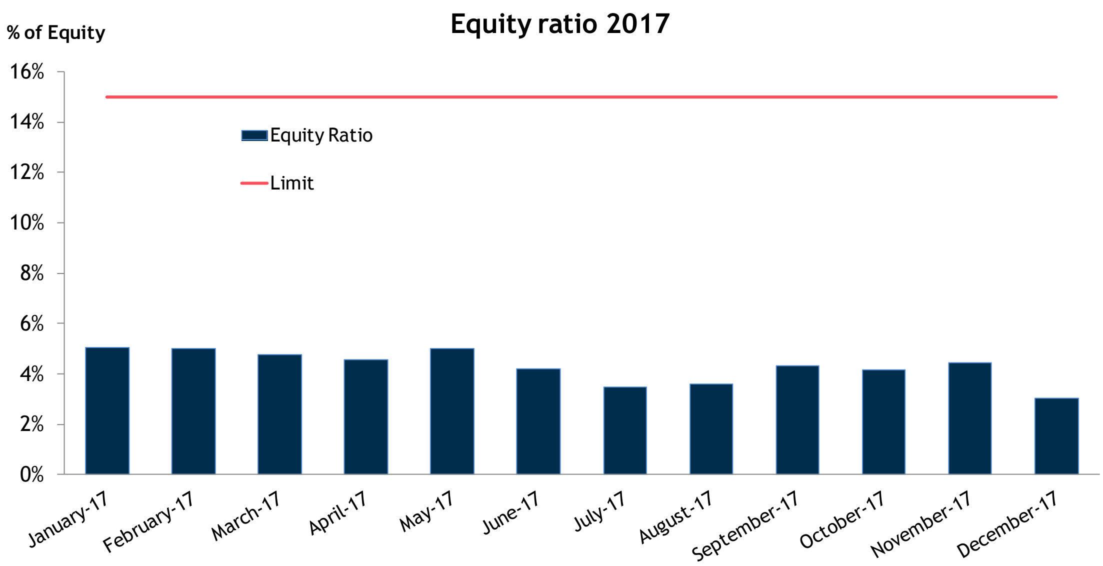
HRK'000

	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	298,530	917,472	2,543,882	10,426,435	664,458	731,265	2,551,299	2,851,176	20,984,517
Liabilities	(232)	(2,465,663)	(2,345,972)	(6,964,790)	(2,431,352)	(2,069,467)	(1,580,307)	(3,126,735)	(20,984,517)
Interest GAP	**298,299**	**(1,548,191)**	**197,910**	**3,461,645**	**(1,766,894)**	**(1,338,202)**	**970,992**	**(275,559)**	**-**
Interest GAP (%)	**1.41%**	**(7.34%)**	**0.94%**	**16.41%**	**(8.37%)**	**(6.34%)**	**4.60%**	**(1.31%)**	**0.00%**

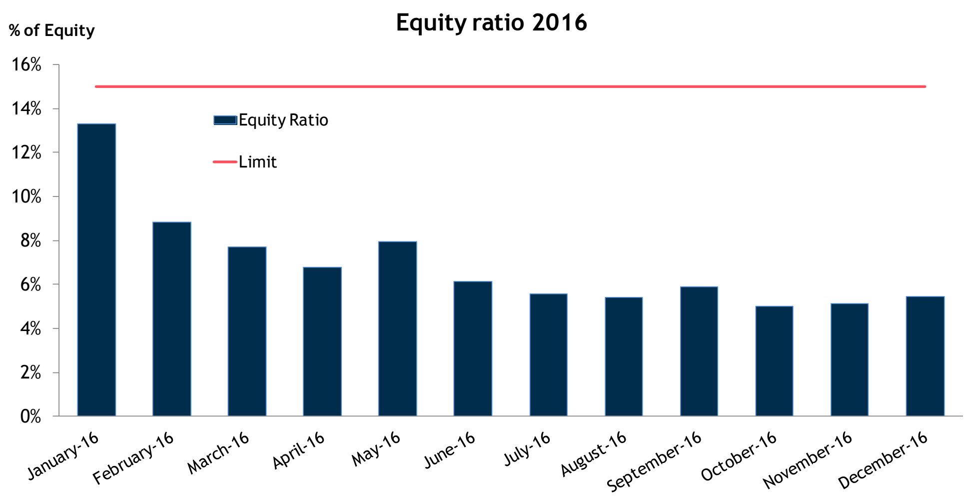
* "No Effect" position represents Share capital on Liability side and Tangible assets on Asset side.

40. RISK MANAGEMENT (CONTINUED)

As shown on the graph for 2017, interest rate risk in the Bank Book was stable amid relatively contained changes in the underlying interest rate volatilities and the relevant structure of interest rate gap. The EUR and HRK components were major risk contributors throughout 2017. 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 2017 are shown on the graph as follows:



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 2016 is shown on the graph as follows:



40. RISK MANAGEMENT (CONTINUED)

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 2017:

HRK'000

	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	**(1,305,952)**	**(392,231)**	**(444,282)**	**1,529,715**	**(991,382)**	**576,422**	**802,690**	**225,019**	**-**
50 BP parallel shift	0.00%	0.02%	0.08%	0.31%	0.69%	1.13%	3.58%	0.00%	
P/L effect	**-**	**(78)**	**(355)**	**4,742**	**(6,841)**	**6,514**	**28,736**	**-**	**32,718**

Interest GAP sensitivity as at 31 December 2016:

HRK'000

	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	**298,298**	**(1,548,191)**	**197,910**	**3,461,645**	**(1,766,894)**	**(1,338,202)**	**970,992**	**(275,559)**	**-**
50 BP parallel shift	0.00%	0.02%	0.08%	0.31%	0.69%	1.13%	3.58%	0.00%	
P/L effect	**-**	**(310)**	**158**	**10,731**	**(12,192)**	**(15,122)**	**34,762**	**-**	**18,028**

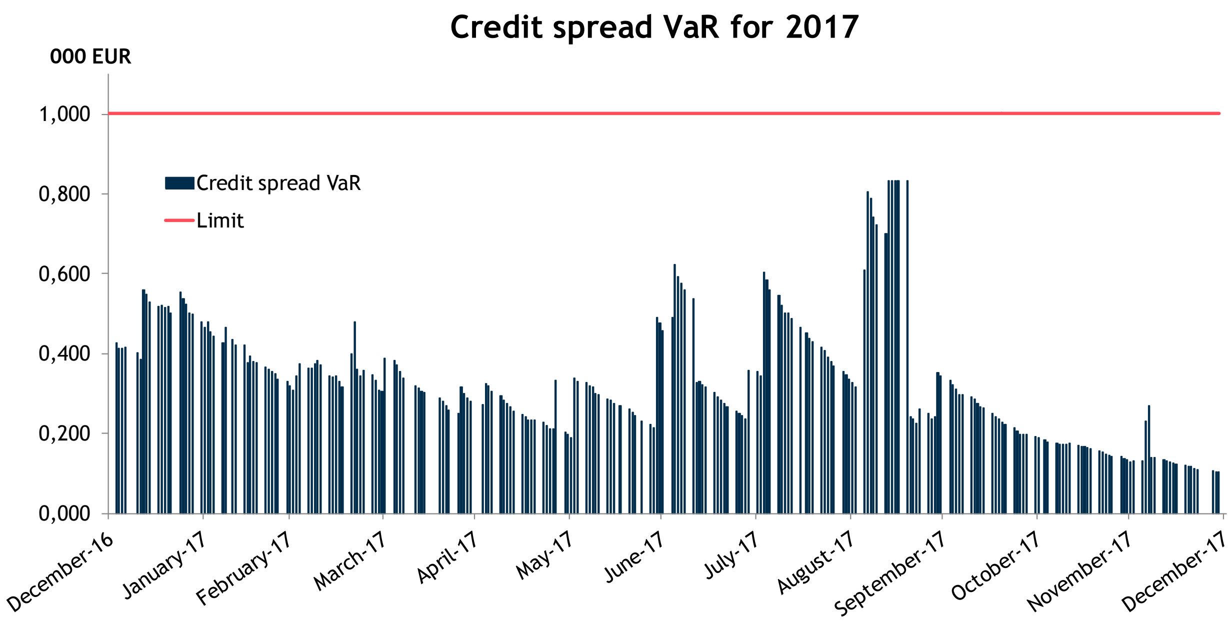
Sensitivity analysis is based on the principle described in Basel Committee on Banking Supervision "Principles for the Management and Supervision of Interest Rate Risk", July 2004, Annex 3 - The standardized interest rate shock.

40. RISK MANAGEMENT (CONTINUED)

40.2.5.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, together with the given VaR limit for credit spread risk for 2017 is shown on the graph below:

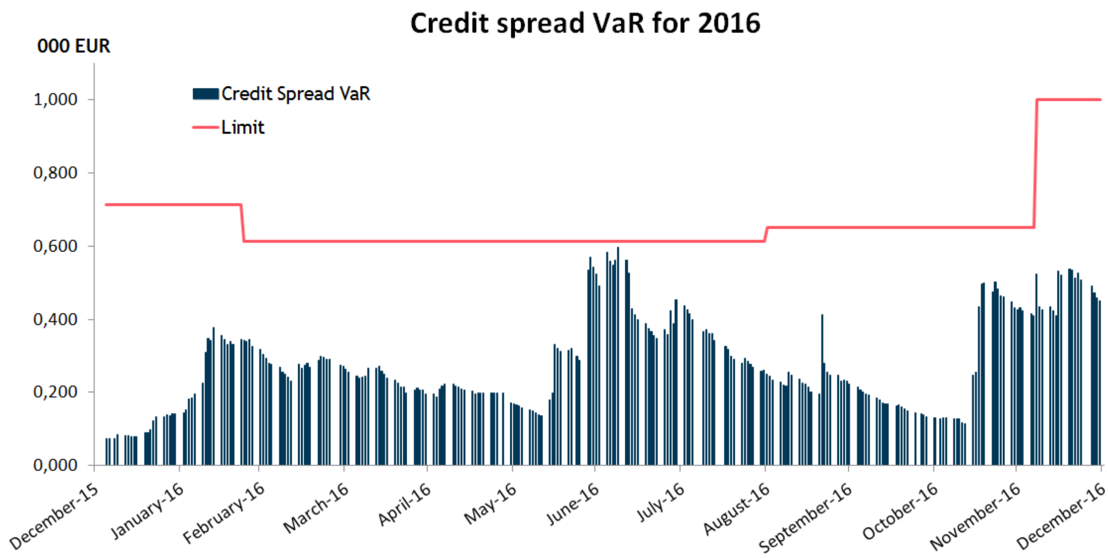


Credit spread risk rose in September on combination of:

- increase in total securities portfolio of EUR 22,000 thousand, and
- increase in volatility of CDS/probability of default mostly for EM government bonds while volatility for non-government bonds was less increased.

40. RISK MANAGEMENT (CONTINUED)

Historical trend of Bank exposure toward credit spread risk, together with given VaR limit for credit spread risk for 2016 is shown on the graph below:



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.

40.2.6. 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 2017 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.

40. RISK MANAGEMENT (CONTINUED)

The following table represents levels of liquidity coverage ratio obtained by the Bank in 2016 and 2017 and calculated out of daily values:

	2017 %	2016 %
Year End	205	148
Maximum	235	354
Minimum	126	88
Average	162	221

During 2017, 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 2017 and 2016:

	2017 %	2016 %
Year End	36.93	21.43
Maximum	39.62	36.64
Minimum	21.60	21.43
Average	29.09	29.53

The A/L ratio was maintained at nearly 30% during 2017 on average, which was on average almost the same level that was marked on average during 2016. Such development is largely the result of persistently strong foreign currency liquidity position.

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.

40. RISK MANAGEMENT (CONTINUED)

The following table shows the level of Liquidity ratios in 2017 and 2016:

	2017 %	2016 %
Current liquidity ratio:		
Year End	40.98	30.60
Maximum	40.98	34.36
Minimum	31.64	23.77
Average	34.77	29.59
Loans to Deposits ratio:		
Year End	76.00	90.65
Maximum	88.35	117.54
Minimum	76.00	88.30
Average	84.73	96.87
Short term assets to short term Liabilities ratio:		
Year End	87.25	85.47
Maximum	87.25	112.21
Minimum	78.61	85.24
Average	82.81	98.97

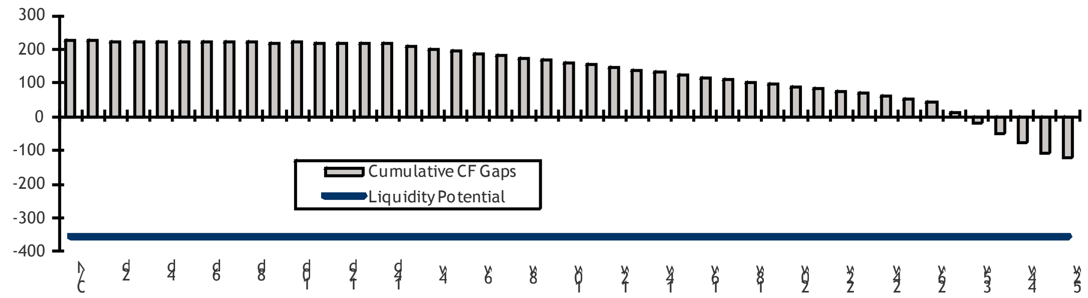
Aside from the mentioned regulatory requirements, the Bank has also developed a system of liquidity risk management which ensures continuous maintenance of sufficient liquidity assets (reserve) in the form of additional, high quality, unpledged liquid instruments as insurance in case of unexpected events. 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.

40. RISK MANAGEMENT (CONTINUED)

Graph below shows sufficiency of liquidity reserves in relation to net projected outflows ("Time to Wall" ratio) on 31 December 2017:

Normal Scenario 31.12.2017

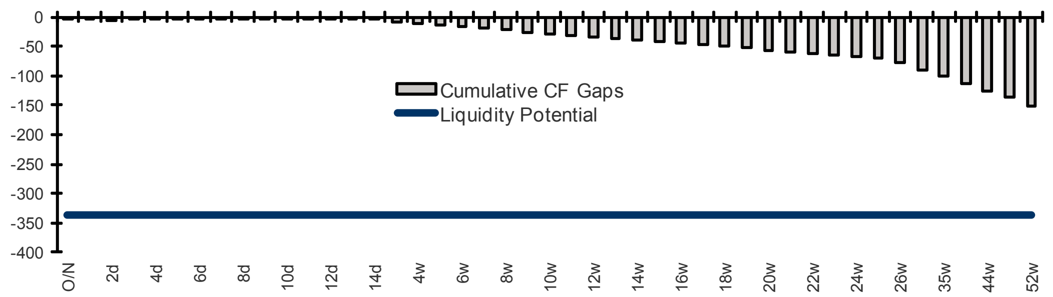
Time to Wall		>52 weeks
Liquidity Position (1.000 EUR) after	1 week	579
	1 month	559
	3 months	495
	6 months	400
	1 year	234



Graph below shows sufficiency of liquidity reserves in relation to net projected outflows ("Time to Wall" ratio) on 31 December 2016:

Normal Scenario 31.12.2016

Time to Wall		>52 weeks
Liquidity Position (1.000 EUR) after	1 week	335
	1 month	325
	3 months	299
	6 months	259
	1 year	186



40. 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 2017:

HRK'000

	Maturity below 1 year	Maturity over 1 year	Total
Assets			
Cash	346,799	-	346,799
Balances with Croatian National Bank	3,525,269	-	3,525,269
Other deposits	1,318,213	-	1,318,213
Financial assets at fair value through P/L and available for sale	390,852	4,479,910	4,870,762
Loans and receivables	1,110,370	9,339,592	10,449,962
Total financial assets	**6,895,244**	**14,235,255**	**21,130,499**
Liabilities			
Received deposits	9,067,459	8,323,210	17,390,669
Received loans	164,098	423,328	587,426
Other liabilities	113,346	21,170	134,516
Total financial liabilities	**9,501,796**	**11,628,703**	**21,130,499**

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 2016:

HRK'000

	Maturity below 1 year	Maturity over 1 year	Total
Assets			
Cash	316,557	-	316,557
Balances with Croatian National Bank	3,148,508	-	3,148,508
Other deposits	299,909	112,544	412,453
Financial assets at fair value through P/L and available for sale	729,404	3,587,444	4,316,848
Loans and receivables	1,069,095	11,220,390	12,289,485
Total financial assets	**5,702,572**	**15,281,945**	**20,984,517**
Liabilities			
Received deposits	7,416,406	10,023,294	17,439,700
Received loans	24,465	581,391	605,856
Other liabilities	237,438	42,154	279,592
Total financial liabilities	**7,867,148**	**13,117,369**	**20,984,517**

40. RISK MANAGEMENT (CONTINUED)

The following table details the remaining contractual maturity for Bank financial assets and liabilities as at 31 December 2017:

HRK'000

	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	346,799	-	-	-	-	-	-	346,799
Balances with Croatian National Bank	-	1,910	1,867	162	-	70	3,540,141	3,544,150
Financial assets at fair value through P/L and available for sale	-	-	-	723,679	498,510	994,468	2,652,848	4,869,504
Placements with and loans to other banks	947,691	409,535	868	115,625	-	-	-	1,473,719
Loans and receivables	23,704	234,366	568,312	2,235,431	1,666,424	1,416,551	6,717,882	12,862,670
Other assets	1,001	17,522	5,267	16,244	20,045	9,688	299,201	368,968
Investments in subsidiaries	-	-	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	-	-	262,993	262,993
Total assets	**1,319,195**	**663,333**	**576,314**	**3,091,141**	**2,184,979**	**2,420,777**	**13,473,065**	**23,728,803**
Liabilities								
Due to financial institutions	(647)	(259,343)	(87,662)	(490,140)	(885,803)	(113,686)	(2,555,490)	(4,392,771)
Deposits from customers	(6,494,613)	(707,984)	(1,047,238)	(4,643,348)	(713,918)	(61,483)	(128,645)	(13,797,230)
Deferred items	-	-	(1)	-	-	-	(23)	(24)
Provisions for liabilities and charges	(1,355)	(29)	(134)	(781)	(637)	(4,624)	(170,273)	(177,833)
Other liabilities	(211)	(16,441)	(16,873)	(49,896)	(15,510)	(5,482)	(67,790)	(172,204)
Equity	-	-	-	-	-	-	(3,017,292)	(3,017,292)
Total liabilities and equity	**(6,496,826)**	**(983,797)**	**(1,151,908)**	**(5,184,165)**	**(1,615,868)**	**(185,275)**	**(5,939,513)**	**(21,557,354)**
Gap per time band	(5,177,631)	(320,464)	(575,594)	(2,093,024)	569,111	2,235,502	7,533,552	
Gap in %	**(21.82%)**	**(1.35%)**	**(2.43%)**	**(8.82%)**	**2.40%**	**9.42%**	**31.75%**	

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 2017 the balance of term deposits from retail customers was HRK 6,556,389 thousand and as at 31 December 2016 it was at HRK 8,334,559 thousand.

40. RISK MANAGEMENT (CONTINUED)

The following table details the remaining contractual maturity for Bank's financial assets and liabilities as at 31 December 2016:

HRK'000

	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	1,959,270	-	-	-	-	-	-	1,959,270
Balances with Croatian National Bank	-	390	-	66	-	-	1,219,862	1,220,319
Financial assets at fair value through P/L and available for sale	-	49,990	35,256	750,353	544,626	480,766	2,180,753	4,041,744
Placements with and loans to other banks	613,919	73,465	873	2,927	-	-	-	808,447
Loans and receivables	16,071	269,430	1,104,752	2,639,492	2,608,608	1,647,204	7,229,546	15,515,104
Other assets	744	19,726	13,923	14,801	14,895	17,969	198,079	280,138
Investments in subsidiaries	-	-	-	-	-	-	4,659	4,659
Property, plant and equipment and intangible assets	-	-	-	-	-	-	291,302	291,302
Total assets	**2,590,004**	**413,001**	**1,154,804**	**3,407,639**	**3,285,391**	**2,145,939**	**11,124,201**	**24,120,983**
Liabilities								
Due to financial institutions	-	(199,856)	(60,527)	(359,234)	(248,682)	(903,301)	(2,215,238)	(3,987,072)
Deposits from customers	(5,076,587)	(973,310)	(1,119,545)	(4,671,741)	(2,031,369)	(290,492)	(154,323)	(14,317,368)
Deferred items	-	-	-	-	-	-	-	5,835
Provisions for liabilities and charges	(1,225)	-	(11,012)	(11,326)	(726)	(596)	(205,457)	(230,387)
Other liabilities	-	(20,613)	(21,161)	(73,708)	(37,434)	(11,863)	(263,966)	(428,953)
Equity	-	-	-	-	-	-	(2,588,968)	(2,588,968)
Total liabilities and equity	**(5,078,253)**	**(1,193,825)**	**(1,212,245)**	**(5,116,009)**	**(2,318,211)**	**(1,206,252)**	**(5,422,117)**	**(21,546,913)**
Gap per time band	**(2,488,249)**	**(780,824)**	**(57,441)**	**(1,708,370)**	**967,180**	**939,687**	**5,702,084**	
Gap in %	**(10.32%)**	**(3.24%)**	**(0.24%)**	**(7.08%)**	**4.01%**	**3.90%**	**23.64%**	

40. RISK MANAGEMENT (CONTINUED)

The following table details the remaining maturity for Bank's off balance positions as at 31 December 2017: HRK'000

	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	1,332,448	1,581	6,045	134,249	12,138	-	-	1,486,461
Guarantees & Letters of credit	12,842	17,296	46,890	174,068	178,954	-	-	430,050
Derivatives nominal -long	-	415,599	213,339	49,909	-	-	-	678,848
Derivatives nominal -short	-	(414,329)	(211,698)	(49,948)	-	-	-	(675,975)

The following table details the remaining maturity for Bank's off balance positions as at 31 December 2016: HRK'000

	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	1,259,340	6,004	3,205	71,784	34,809	-	-	1,375,142
Guarantees & Letters of credit	13,385	20,749	65,952	230,890	204,484	-	-	535,460
Derivatives nominal -long	-	239,946	6,047	3,779	-	-	-	249,772
Derivatives nominal -short	-	(240,061)	(6,046)	(3,791)	-	-	-	(249,899)

40.3. 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, model and reputational 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, analyzes 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.

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.

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

40. RISK MANAGEMENT (CONTINUED)

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 2017 amounts to HRK 70,106 thousand. Total amount of realized losses (realized and potential), which were influenced by operational risk amounts to HRK 2,584 thousand, and it represents 3.69 % of allocated capital requirements. These losses are recorded within 85 operational risk events.

Total gross volume of the realized losses amounts to HRK 940 thousand and the recovery is recorded in the amount of HRK 493 thousand, which represents net loss in the amount of HRK 447 thousand. Remaining amount of HRK 2,136 thousand is referring to additional potential losses.

40.4. Derivative Financial Instruments

Credit exposure or replacement cost of financial derivative instruments represents the Group's credit exposure from contracts with a positive fair value, that is, it indicates the estimated maximum potential losses of the Group 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. The credit equivalent is established depending on the type of contract and its maturity. The Group periodically assesses credit risks of all financial instruments.

Derivative financial instruments used by the Group 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.

41. 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 2017 and 2016 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.

As at 1 January 2014, credit institutions in 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 local regulator, the Croatian National Bank. The Group's and the Bank's regulatory capital requirements were based on Basel III.

The Group's and Bank's regulatory capital consist of Common Equity Tier 1 ("CET1") capital and Tier 2 capital ("T2"). The CET1 capital includes ordinary share capital, share premium, 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, unrealized fair value losses on financial instruments designated as available for sale and other transitional adjustments. The T2 capital includes eligible subordinated debt.

Minimum capital adequacy ratios according to Article 92 of the CRR are as follows:

- Common Equity Tier 1 capital ratio of 4.5% of the total risk exposure amount,
- Tier 1 capital ratio of 6% of the total risk exposure amount,
- Total capital ratio of 8% of the total risk exposure amount.

In addition to regulatory prescribed minimum capital adequacy ratios and in accordance with Articles 117 and 130 of CNB's Credit Institutions Act and Articles 129 and 133 of CRD IV, the Group and the Bank are also obliged to maintain the following capital buffers:

- capital conservation buffer in the amount of 2.5% of the total risk exposure amount, and
- systemic risk buffer in the amount of 3% of the total risk exposure amount.

The following table presents regulatory capital and capital adequacy ratios as at 31 December 2017 and as at 31 December 2016:

HRK'000

	Group and Bank 2017	Group 2016	Bank 2016
Regulatory capital:			
Core capital	2,362,640	2,398,865	2,412,797
Supplementary capital	914,924	1,280,827	1,280,827
Total regulatory capital	**3,277,564**	**3,679,692**	**3,693,624**
Credit risk-weighted assets and other risk exposures	**11,774,551**	**12,486,596**	**12,347,293**
Core capital adequacy ratio	20.07%	19.21%	19.54%
Total regulatory capital adequacy ratio	27.84%	29.47%	29.91%
Required regulatory capital adequacy ratio	8.00%	8.00%	8.00%

In 2017, decrease of risk weighted asset is influenced mainly by regular portfolio repayments and Retail segment portfolio sales of secured portfolio (housing loans) and unsecured portfolio. Additionally, default of one large Croatian retailer also influenced RWA decrease due to booked provisions for this part of exposure.

There were no breaches of minimal regulatory limits related to capital adequacy in 2017 and in 2016 until the date of these financial statements.

Pursuant to the Croatian Accounting Act (Official Gazette 78/2015, 134/2015, 120/2016) the Croatian National Bank issued the Decision on structure and contents of annual financial statements of credit institutions (Official Gazette 30/2017, 44/2017). The following tables present financial statements in accordance with the above mentioned decision:

Consolidated Statement of Profit or Loss

HRK'000

	2017	2016
1. Interest income	742.498	843,871
2. (Interest expenses)	(288.922)	(425,270)
3. Net interest income	**453.576**	**418,601**
4. Commission and fee income	205.267	220,162
5. (Commission and fee expenses)	(36.087)	(47,561)
6. Net commission and fee income	**169.180**	**172,601**
7. Gain/(loss) from investments in subsidiaries, affiliated companies and joint ventures	13.141	-
8. Gain/(loss) from trading activities	68.130	73,111
9. Gain/(loss) from embedded derivatives	2.526	45,513
10. Gain/(loss) from financial assets not traded on active markets at fair value through profit or loss	-	-
11. Gain/(loss) from financial assets available for sale	10.035	64,385
12. Gain/(loss) from financial assets held to maturity	-	-
13. Gain/(loss) from hedging transactions	-	(993)
14. Income from investments in subsidiaries, affiliated companies and joint ventures	-	-
15. Income from other equity investments	9.978	22
16. Gain/(loss) from foreign exchange differences	(39.114)	(75,692)
17. Other income	29.669	84,776
18. Other expenses	68.712	111,742
19. General and administrative expenses, depreciation and amortization	423.813	523,445
20. Net income before value adjustments and provisions for losses	**224.596**	**147,137**
21. Expenses from value adjustments and provisions for losses	71.392	67,219
22. Profit/(loss) before tax	**153.204**	**79,918**
23. Income tax	(76.450)	20,287
24. Current year profit/(loss)	**229.654**	**59,631**
25. Earnings per share	HRK184	HRK 44

Appendix to the Statement of Profit or Loss

HRK'000

	2017	2016
Current year profit/(loss)	229,654	59,631
Distributable to the parent company shareholders	229,654	59,631
Minority participation	-	-

Consolidated Statement of Other Comprehensive Income

HRK'000

	2017	2016
1. Current year profit/(loss)	**229,654**	**59,219**
2. Other comprehensive income	**41,946**	**(38,656)**
2.1 Items that will not be reclassified to profit or loss	**(1,114)**	**(19)**
2.1.1 Tangible assets	(1,358)	(523)
2.1.2 Intangible assets	-	-
2.1.3 Actuarial gains/(losses) on pension plans under the sponsorship of the employer	-	-
2.1.4 Non-current assets and disposal groups classified as held for sale	-	-
2.1.5 Share of other recognized income and expenses of entities that are accounted for by the equity method	-	-
2.1.6 Income tax relating to items that will not be reclassified	244	504
2.2 Items that can be reclassified to profit or loss	43,060	(38,637)
2.2.1 Hedge of net investment in foreign operations (effective share)	-	-
2.2.1.1 Gains/losses recognized in equity	-	-
2.2.1.2 Transferred to profit or loss	-	-
2.2.1.3 Other reclassifications	-	-
2.2.2 Foreign currency exchange	-	-
2.2.2.1 Gains/losses recognized in equity	-	-
2.2.2.2 Transferred to profit or loss	-	-
2.2.2.3 Other reclassifications	-	-
2.2.3 Hedge of cash flows (effective share)	-	-
2.2.3.1 Gains/losses recognized in equity	-	-
2.2.3.2 Transferred to profit or loss	-	-
2.2.3.3 Transferred to initial carrying amount of protected items	-	-
2.2.3.4 Other reclassifications	-	-
2.2.4 Financial assets available for sale	52,512	(48,554)
2.2.4.1 Gains/losses recognized in equity	62,547	15,832
2.2.4.2 Transferred to profit or loss	(10,035)	(64,386)
2.2.4.3 Other reclassifications	-	-
2.2.5 Non-current assets and disposal groups classified as held for sale	-	-
2.2.5.1 Gains/losses recognized in equity	-	-
2.2.5.2 Transferred to profit or loss	-	-
2.2.5.3 Other reclassifications	-	-
2.2.6 Share of other recognized income and expenses from investments in subsidiaries, joint ventures and associates	-	-
2.2.7 Income tax relating to items that can be reclassified to profit/(loss)	(9,452)	9,917
3. Total comprehensive income for current year	**271,600**	**20,563**
4. Belongs to minority stake (non-controlling stake)	-	-
5. Belongs to owners of parent company	271,600	20,563

Signed on behalf of Addiko Bank d.d. Zagreb on 27 February 2018:

Mario Žižek, President of the Management Board	Jasna Širola, Member of the Management Board	Ivan Jandrić, Member of the Management Board	Dubravko-Ante Mlikotić, Member of the Management Board	Joško Mihić, Advisor to the Management Board

Consolidated Statement of financial position (Balance Sheet)

HRK'000

	2017	2016
Assets		
1. Cash and deposits with CNB	3,342,696	3,155,967
1.1. Cash	346,798	316,557
1.2. Deposits with CNB	2,995,898	2,839,410
2. Deposits with banking institutions	1,847,527	721,802
3. Treasury bills of Ministry of Finance and treasury bills of CNB	**238,323**	**332,252**
4. Securities and other financial instruments held for trading	33,182	31,757
5. Securities and other financial instruments available for sale	4,554,455	3,646,527
6. Securities and other financial instruments held to maturity	-	-
7. Securities and other financial instruments that are not traded on active markets at fair value through profit or loss	-	-
8. Derivative financial assets	7,047	635
9. Loans to financial institutions	199,052	95,679
10. Loans to other clients	10,347,663	12,438,158
11. Investments in subsidiaries, affiliated companies and joint ventures	-	-
12. Repossessed assets	10,369	10,428
13. Tangible assets (minus depreciation)	220,947	345,169
14. Interests, fees and other assets	397,956	317,616
A. Total assets	**21,199,217**	**21,095,990**

Consolidated Statement of financial position (Balance Sheet) (continued)

HRK'000

	2017	2016
Liabilities and equity		
1. Borrowings from financial institutions	422,408	594,719
1.1. Short-term borrowings	8,087	22,011
1.2. Long-term borrowings	414,321	572,708
2. Deposits	15,455,497	15,425,825
2.1. Deposits on giro-accounts and current accounts	4,299,301	3,458,626
2.2. Savings deposits	3,392,131	2,411,096
2.3. Term deposits	7,764,065	9,556,103
3. Other borrowings	153,760	-
3.1. Short-term borrowings	153,760	-
3.2. Long-term borrowings	-	-
4. Derivative financial liabilities and other trading financial liabilities	1,198	1,851
5. Issued debt securities	-	-
5.1. Issued short-term debt securities	-	-
5.2. Issued long-term debt securities	-	-
6. Issued subordinated instruments	-	-
7. Issued subordinated debt	1,793,091	1,803,624
8. Interests, fees and other liabilities	512,268	688,212
B. Total liabilities	**18,338,222**	**18,514,231**
Equity		
1. Share capital	**2,558,898**	**5,036,379**
2. Current year gain/(loss)	**229,654**	**59,631**
3. Retained earnings/(loss)	**427**	**(2,682,480)**
4. Legal reserves	**5,253**	**126,051**
5. Statutory and other capital reserves	**3,951**	**31,879**
6. Unrealized gain/(loss) from available for sale financial assets fair value adjustment	**62,812**	**10,299**
C. Total equity	**2,860,995**	**2,581,759**
D. Total liabilities and equity	**21,199,217**	**21,095,990**

Appendix to the Statement of financial position (Balance Sheet)

HRK'000

	2017	2016
Total equity	2,860,995	2,581,759
Equity distributable to parent company shareholders	2,860,995	2,581,759
Minority participation	-	-

Signed on behalf of Addiko Bank d.d. Zagreb on 27 February 2018:

Mario Žižek, President of the Management Board	Jasna Širola, Member of the Management Board	Ivan Jandrić, Member of the Management Board	Dubravko-Ante Mlikotić, Member of the Management Board	Joško Mihić, Advisor to the Management Board

Consolidated Cash Flow Statement

HRK'000

	2017	2016
Operating activities		
1.1. Gain/(loss) before tax	153,204	79,918
1.2. Value adjustments and provisions for losses	111,939	104,832
1.3. Depreciation and amortization	29,259	86,966
1.4. Net unrealized (gain)/loss from financial assets and liabilities at fair value through profit or loss	(6,011)	402
1.5. (Gain)/loss from tangible assets sale	(27,724)	(3,903)
1.6. Other (gains)/losses	(5,198)	(1,388,350)
1. Operating cash flow before operating assets movements	**255,469**	**(1,120,135)**
2.1. Deposits with CNB	(53,724)	536,049
2.2. Treasury bills of Ministry of Finance and treasury bills of CNB	93,929	475,033
2.3. Deposits with banking institutions and loans to financial institutions	(324)	(35,775)
2.4. Loans to other clients	1,925,383	4,215,521
2.5. Securities and other financial instruments held for trading	(1,431)	(22,577)
2.6. Securities and other financial instruments available for sale	(998,277)	(1,674,643)
2.7. Securities and other financial instruments that are not traded on active markets at fair value through profit or loss	-	-
2.8. Other operating assets	16,466	132,024
2.Net (increase)/decrease in operating assets	**982,022**	**3,625,632**
Increase/(decrease) in operating liabilities		
3.1. Demand deposits	1,917,252	1,498,196
3.2. Savings and term deposits	(1,665,487)	(3,779,836)
3.3. Derivative financial liabilities and other trading liabilities	(1,104)	(88,718)
3.4. Other liabilities	(65,703)	(16,425)
3. Net increase/(decrease) in operating liabilities	**184,958**	**(2,386,783)**
4. Net cash flow from operating activities before profit tax paying	**1,422,449**	**118,714**
5. Paid profit tax	(535)	(691)
6. Net inflows/(outflows) of cash from operating activities	**1,421,914**	**118,023**
Investing activities		
7.1. Receipts from sale/(payments for purchasing) tangible and intangible assets	(33,603)	138,253
7.2. Receipts from sale /(payments for buying) investments in subsidiaries, affiliated companies and joint ventures	-	-
7.3. Receipts from collection/(payments for buying) securities and other financial instruments held to maturity	-	-
7.4. Received dividends	9,978	-
7.5. Other receipts/(payments) form investment activities	-	-
7. Net cash flow from investing activities	**(23,625)**	**138,253**
Financial activities		
8.1. Net increase/(decrease) in borrowings	(16,737)	(470,669)
8.2. Net increase/(decrease) in issued debt securities	-	-
8.3. Net increase/(decrease) in subordinated debt	(110)	-
8.4. Receipts from issued share capital	-	-
8.5. (Dividends paid)	-	-
8.6. Other receipts/(payments) from financial activities	-	-
8. Net cash flow from financial activities	**(16,847)**	**(470,669)**
9. Net increase/(decrease) in cash and cash equivalents	**1,381,442**	**(214,393)**
10. Effects from foreign exchange rates changes on cash and cash equivalents	**(34,235)**	**(35,781)**
11. Net increase/(decrease) in cash and cash equivalents	**1,347,207**	**(250,174)**
12. Cash and cash equivalents at the beginning of the year	**2,573,189**	**2,823,363**
13. Cash and cash equivalents at the end of the year	**3,920,396**	**2,573,189**

Consolidated Statement of Changes in Equity

HRK'000

	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Current year profit/ loss	Unrealised gain/ losses from available for sale financial assets fair value adjustment	Minority Partici-pation	Total capital and reserves
1. Balance at 1 January 2017	**5,036,379**	**-**	**157,930**	**(2,682,480)**	**59,631**	**10,299**	**-**	**2,581,759**
2. Changes of Accounting policies and error corrections	-	-	-	-	-	-	-	**-**
3. Restated balance at 1 January 2017	**5,036,379**	**-**	**157,930**	**(2,682,480)**	**59,631**	**10,299**	**-**	**2,581,759**
4. Sale of financial assets available for sale	-	-	-	-	-	(10,034)	-	**(10,034)**
5. Fair value changes of financial assets available for sale	-	-	-	-	-	62,547	-	**62,547**
6. Tax on items directly recognized or transferred from capital and reserves	-	-	(9,208)	-	-	-	-	**(9,208)**
7. Other gains or losses directly recognized in capital and reserves	-	-	-	-	-	-	-	**-**
8. Net gains/losses directly recognized in capital and reserves	**-**	**-**	**(9,208)**	**-**	**-**	**52,513**	**-**	**43,305**
9. Current year gain/ (loss)	-	-	-	-	229,654	-	-	**229,654**
10. Total income and expenses recognized for the current year	**-**	**-**	**(9,208)**	**-**	**229,654**	**52,513**	**-**	**272,959**
11. Increase/ (decrease) in share capital	(2,477,481)	-	-	-	-	-	-	**(2,477,481)**
12. Buying/(sale) of treasury shares	-	-	-	-	-	-	-	**-**
13. Other changes	-	-	(142,479)	2,626,649	(412)	-	-	**2,483,758**
14. Transfer to reserves	-	-	2,961	56,258	(59,219)	-	-	**-**
15. Dividends paid	-	-	-	-	-	-	-	**-**
16. Distribution of profit	**-**	**-**	**2,961**	**56,258**	**(59,219)**	**-**	**-**	**-**
17. Balance at 31 December 2017	**2,558,898**	**-**	**9,204**	**427**	**229,654**	**62,812**	**-**	**2,860,995**

Consolidated Statement of Changes in Equity (continued)

HRK'000

	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Current year profit/ loss	Unrealised gain/ losses from available for sale financial assets fair value adjustment	Minority Partici-pation	Total capital and reserves
1. Balance at 1 January 2016	**5,036,379**	**-**	**147,832**	**(142,901)**	**(2,534,674)**	**58,853**	**-**	**2,565,489**
2. Changes of Accounting policies and error corrections	-	-	-	-	-	-	-	-
3. Restated current year balance	**5,036,379**	**-**	**147,832**	**(142,901)**	**(2,534,674)**	**58,853**	**-**	**2,565,489**
4. Sale of financial assets available for sale	-	-	-	-	-	(64,386)	-	**(64,386)**
5. Fair value changes of financial assets available for sale	-	-	-	-	-	15,832	-	**15,832**
6. Tax on items directly recognized or transferred from capital and reserves	-	-	10,421	-	-	-	-	**10,421**
7. Other gains or losses directly recognized in capital and reserves	-	-	(137)	-	-	-	-	**(137)**
8. Net gains/losses directly recognized in capital and reserves	**-**	**-**	**10,284**	**-**	**-**	**(48,554)**	**-**	**(38,270)**
9. Current year gain/ (loss)	-	-	-	-	59,631	-	-	**59,631**
10. Total income and expenses recognized for the current year			**10,284**	**-**	**59,631**	**(48,554)**	**-**	**21,361**
11. Increase/ (decrease) in share capital	-	-	-	-	-	-	-	-
12. Buying/(sale) of treasury shares	-	-	-	-	-	-	-	-
13. Other changes	-	-	(386)	(4,705)	-	-	-	**(5,091)**
14. Transfer to reserves	-	-	200	(2,534,874)	2,534,674	-	-	-
15. Dividends paid	-	-	-	-	-	-	-	-
16. Distribution of profit	**-**	**-**	**200**	**(2,534,874)**	**2,534,674**	**-**	**-**	**-**
17. Balance at 31 December 2016	**5,036,379**	**-**	**157,930**	**(2,682,480)**	**59,631**	**10,299**	**-**	**2,581,759**

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 table presents comparatives.

Comparatives for the statement of profit or loss ended 31 December 2017 and 31 December 2016:

HRK'000

	2017 Croatian National Bank's Decision	2017 Accounting Requirements for banks in Croatia	2017 Difference	2016 Croatian National Bank's Decision	2016 Accounting Requirements for banks in Croatia	2016 Difference
Interest and interest similar income	742,498	744,678	(2,180)	843,871	841,214	2,657
Interest and interest similar expenses	(288,922)	(264,133)	(24,789)	(425,270)	(397,411)	(27,859)
Net interest income	**453,576**	**480,545**	**(26,969)**	**418,601**	**443,803**	**(25,202)**
Commission and fee income	205,267	213,417	(8,150)	220,162	228,021	(7,859)
Commission and fee expenses	(36,087)	(37,969)	1,882	(47,561)	(48,410)	849
Net commission and fee income	**169,180**	**175,448**	**(6,268)**	**172,601**	**179,611**	**(7,010)**
Net trading gain	68,130	72,542	(4,412)	73,111	175,151	(102,040)
Gain from investments in subsidiaries	13,141	-	13,141			
Gain from financial assets available for sale	10,035	-	10,035	64,385	-	64,385
Gain from embedded derivatives	2,526	-	2,526	45,513	-	45,513
Income from other equity investments	9,978	-	9,978	22	-	22
Net foreign exchange differences	(39,114)	(19,841)	(19,273)	(75,692)	(65,463)	(10,229)
Other operating income	29,669	52,759	(23,090)	83,783	83,679	104
Total other income	**94,365**	**105,460**	**(11,095)**	**191,122**	**193,367**	**(2,245)**
General and administrative expenses, depreciation and amortization	(423,813)	(29,259)	(394,554)	(523,445)	(86,966)	(436,479)
Personnel expenses	-	(228,064)	228,064	-	(245,635)	245,635
Expenses from value adjustments and provisions for losses	(71,392)	(111,939)	40,547	(67,219)	(106,334)	39,115
Result on conversion of CHF loans	-	(5,320)	5,320	-	68,962	(68,962)
Other operating expenses	(68,712)	(233,667)	164,955	(111,742)	(366,890)	255,148
Total other expenses	**(563,917)**	**(608,249)**	**44,332**	**(702,406)**	**(736,863)**	**34,457**
Profit before tax	**153,204**	**153,204**	**-**	**79,918**	**79,918**	**-**
Income tax	76,450	76,450	-	(20,287)	(20,287)	-
Net profit for the year	**229,654**	**229,654**	**-**	**59,631**	**59,631**	**-**

The difference in position "Interest and interest similar income" of HRK 2,180 thousand relates to foreign exchange differences disclosed in "Net foreign exchange differences" in the statement of profit or loss in accordance with statutory accounting requirements for banks in Croatia.

The difference in position "Interest and interest similar expenses" of HRK 25,662 thousand relates to savings deposits insurance premium expenses disclosed in "Other operating expenses" in accordance with statutory accounting requirements for banks in Croatia. The difference of HRK 164 thousand relates to foreign exchange differences based on interest payables disclosed in "Net foreign exchange differences" in the statement of profit or loss in accordance with statutory accounting requirements for banks in Croatia. The difference of HRK 709 thousand relates to insurance expenses based on credit cards disclosed in "and administrative expenses, depreciation and amortization" in the statement of profit or loss in accordance with CNB decision.

The difference in position "Commission and fee income" of HRK 8,150 thousand relates to income deriving from the bid-ask spread from transactions with the customers disclosed in "Net trading gain" in financial statements in accordance with CNB decision.

The difference in position “Commission and fee expenses” of HRK 1,881 thousand relates to insurance expenses based on transaction accounts packages disclosed in “General and administrative expenses, depreciation and amortization” in financial statements in accordance with CNB decision. The difference of HRK 1 thousand relates to foreign exchange differences based on commission and fee payables disclosed in “Net foreign exchange differences” in the statement of profit or loss in accordance with statutory accounting requirements for banks in Croatia.

The difference in position “Net trading gain” of HRK 10,035 thousand relates to income from trading in assets available for sale disclosed in “Gain from financial assets available for sale” in financial statements in accordance with CNB decision. The difference in position “Net trading gain” of HRK 2,526 thousand relates to income from embedded derivatives disclosed in “Gain from embedded derivatives” in financial statements in accordance with CNB decision.

The difference in position “Gain from investments in subsidiaries” of HRK 13,141 thousand relates to income from sale of subsidiary disclosed in “Other operating income” in financial statements in accordance with statutory accounting requirements for banks in Croatia.

The difference in position “Income from other equity investments” of HRK 9,978 thousand relates to dividends received disclosed in “Other operating income” in financial statements in accordance with statutory accounting requirements for banks in Croatia.

The difference in position “Net foreign exchange differences” of HRK 21,290 thousand relates to foreign exchange differences on impairment items disclosed in “Expenses from value adjustments and provisions for losses” in accordance with CNB decision. The difference of HRK 2,017 thousand relates to above listed foreign exchange differences on interest and non-interest receivables and payables.

The difference in position “Other operating income” of HRK 29 thousand relates to income from collected written-off receivables disclosed in “Expenses from value adjustments and provisions for losses” in accordance with CNB decision. The difference of HRK 9,978 thousand relates to dividends received disclosed in “Income from other equity investments” in accordance with CNB decision. The difference of HRK 13,141 thousand relates to dividends received disclosed in “Gain from investments in subsidiaries” in accordance with CNB decision.

The difference in position “General and administrative expenses, depreciation and amortization” of HRK 709 thousand relates to insurance expenses based on credit cards disclosed in “Interest and interest similar expenses” in the statement of profit or loss, in accordance with statutory accounting requirements for banks in Croatia. The difference of HRK 1,881 thousand relates to insurance expenses based on transaction accounts packages disclosed in “Commission and fee expenses” in the statement of profit or loss, in accordance with statutory accounting requirements for banks in Croatia. The difference of HRK 16,234 thousand relates to property impairment losses disclosed in “Expenses from value adjustments and provisions for losses” in financial statements, in accordance with statutory accounting requirements for banks in Croatia. The difference of HRK 1,996 thousand relates to collection expenses disclosed in “Expenses from value adjustments and provisions for losses” in financial statements, in accordance with statutory accounting requirements for banks in Croatia. The difference of HRK 209,475 thousand relates to personnel expenses disclosed in “Personnel expenses” in financial statements, in accordance with statutory accounting requirements for banks in Croatia. The difference of HRK 164,258 thousand relates to material and services expenses and other expenses disclosed in “Other operating expenses” in financial statements, in accordance with statutory accounting requirements for banks in Croatia.

The difference in position “Personnel expenses” of HRK 209,475 thousand relates to personnel expenses disclosed in “General and administrative expenses, depreciation and amortization” in financial statements, in accordance with statutory accounting requirements for banks in Croatia. The difference of HRK 18,589 thousand relates to personnel provisions disclosed in “Other operating expenses” in financial statements, in accordance with statutory accounting requirements for banks in Croatia.

The difference in position “Expenses from value adjustments and provisions for losses” of HRK 16,234 thousand relates to property impairment losses disclosed in “General and administrative expenses, depreciation and amortization”, in accordance with CNB decision. The difference of HRK 21,290 thousand relates to foreign exchange differences on impairment items disclosed in “Net foreign exchange differences” in financial statements, in accordance with statutory accounting requirements for banks in Croatia. The difference of HRK 29 thousand relates to income from collected written-off receivables disclosed in “Other operating income” in financial statements, in accordance with statutory accounting requirements for banks in Croatia. The difference of HRK 1,056 thousand relates to directly written-off receivables disclosed in “Other operating expenses”, in accordance with CNB decision. The difference of HRK 1,996 thousand relates to collection expenses disclosed in “General and administrative expenses, depreciation and amortization”, in accordance with CNB decision.

The difference in position “Result on conversion of CHF loans” of HRK 5,320 thousand relates to provision losses disclosed in “Other operating expenses”, in accordance with CNB decision.

The difference in position “Other operating expenses” of HRK 25,662 thousand relates to savings deposits insurance expenses disclosed in “Interest and interest similar expenses”, in accordance with CNB decision. The difference of HRK 18,529 thousand relates to personnel provisions disclosed in “Personnel expenses” in financial statements, in accordance with statutory accounting requirements for banks in Croatia. The difference of HRK 164,258 thousand relates to material and services expenses and other expenses disclosed in “General and administrative expenses, depreciation and amortization”, in accordance with CNB decision. The difference of HRK 1,056 thousand relates to directly written-off receivables disclosed in “Expenses from value adjustments and provisions for losses” in financial statements, in accordance with statutory accounting requirements for banks in Croatia.

The difference of HRK 5,320 thousand relates to provision losses disclosed in “Result on conversion of CHF loans” in financial statements, in accordance with statutory accounting requirements for banks in Croatia.

Comparatives for the Statement of financial position (Balance Sheet) at 31 December 2017 and 31 December 2016:

HRK'000

	2017 Croatian National Bank's Decision	2017 Accounting Requirements for banks in Croatia	2017 Difference	2016 Croatian National Bank's Decision	2016 Accounting Requirements for banks in Croatia	2016 Difference
Assets						
Cash and deposits with CNB	3,342,696	4,817,039	(1,474,343)	3,155,967	3,764,974	(609,007)
Treasury bills of Ministry of Finance and treasury bills of CNB	238,323	-	238,323	332,252	-	332,252
Financial assets at fair value through profit or loss	33,182	33,447	(265)	31,757	32,157	(400)
Placements with and loans to other banks	2,046,579	472,908	1,573,671	817,481	112,544	704,937
Loans and receivables	10,347,663	10,401,352	(53,689)	12,438,158	12,341,213	96,945
Available for sale financial assets	4,554,455	4,836,593	(282,138)	3,646,527	4,009,587	(363,060)
Repossessed assets	10,369	10,369	-	10,428	10,428	-
Investment property	-	6,438	(6,438)	-	8,929	(8,929)
Property, plant and equipment and intangible assets	220,947	251,884	(30,937)	345,169	277,457	67,712
Non-current assets and disposal groups classified as held for sale		115,047	(115,047)	-	325,729	(325,729)
Derivative financial assets	7,047	7,047	-	635	614	21
Other assets	397,956	178,375	219,581	317,616	182,214	135,402
Total assets	**21,199,217**	**21,130,499**	**68,718**	**21,095,990**	**20,981,406**	**114,584**
Liabilities						
Due to other banks and due to customers	16,031,665	16,174,831	(143,166)	16,020,544	16,216,580	(196,036)
Provisions for liabilities and charges	-	180,927	(180,927)	-	233,144	(233,144)
Derivative financial liabilities and other trading financial liabilities	1,198	1,198	-	1,851	1,837	14
Liabilities included in disposal groups classified as held for sale	-	-	-	-	20,473	(20,473)
Other liabilities	512,268	118,920	393,348	688,212	123,717	564,495
Subordinated debt	**1,793,091**	**1,793,628**	**(537)**	**1,803,624**	**1,803,896**	**(272)**
Total liabilities	**18,338,222**	**18,269,504**	**68,718**	**18,514,231**	**18,399,647**	**114,584**
Equity						
Share capital	2,558,898	2,558,898	-	5,036,379	4,992,972	43,407
Share premium	-	-	-	-	59,769	(59,769)
Net profit for the year	229,654	229,654	-	59,631	59,631	-
Retained earnings/(loss carried forward)	427	427	-	(2,682,480)	(2,682,480)	-
Unrealized gain from available for sale fair value adjustment	62,812	-	62,812	10,299	-	10,299
Reserves	9,204	72,016	(62,812)	157,930	151,867	6,063
Total equity	**2,860,995**	**2,860,995**	**-**	**2,581,759**	**2,581,759**	**-**
Total liabilities and equity	**21,199,217**	**21,130,499**	**68,718**	**21,095,990**	**20,981,406**	**114,584**

The difference in total assets and total liabilities of HRK 68,718 thousand between the balance sheet disclosed according to the CNB decision and the balance sheet disclosed in accordance with statutory accounting requirements for banks in Croatia arises from different classification of liabilities for early repayment of loans and from netting of receivables and payables based on card business settlement in financial statements in accordance with statutory accounting requirements for banks in Croatia.

In statements according to CNB decision liabilities based on the early repayment of loans in the amount of HRK 59,391 thousand are included in the position "Interests, fees and other liabilities" in "Total liabilities", while in the financial statements according to the statutory accounting requirements for banks in Croatia they are recognized as an adjustment in the position "Loans and receivables" in "Total assets".

Receivables based on card business settlement in the amount of HRK 7,786 thousand are disclosed in the position "Other assets" in statements according to CNB decision, while in the financial statements according to the statutory accounting requirements for banks in Croatia they are netted with related payables and disclosed in the position "Other liabilities" in "Total liabilities". Payables based on card business settlement in the amount of HRK 1,541 thousand are disclosed in the position "Other liabilities" in statements according to CNB decision, while in the financial statements according to the statutory accounting requirements for banks in Croatia they are netted with related receivables and disclosed in the position "Other assets" in "Total assets".

Differences in other positions arise from different classification of interest receivables and interest payables. In statements according to CNB decision interest receivables and interest payables are disclosed in "Other assets" and "Other liabilities" respectively, while in the financial statements according to the statutory accounting requirements for banks in Croatia they are disclosed in assets or liabilities positions to which they are related to, as an adjustment to their amortized cost.

Cash and Deposits with the Croatian National Bank are disclosed as separate positions according to CNB decision, while in the financial statements according to the statutory accounting requirements for banks in Croatia they are included in "Cash and current accounts with other banks" and "Balances with the Croatian National Bank".

Ministry of Finance treasury bills are separately disclosed according to the CNB decision, whereas in the financial statements according to the statutory accounting requirements for banks in Croatia these securities are part of "Financial assets available for sale".

Assets and liabilities included in disposal groups classified as held for sale are in statements according to CNB decision disclosed in assets or liabilities positions to which they are related to, while in the financial statements according to the statutory accounting requirements for banks in Croatia they are disclosed in "Non-current assets and disposal groups classified as held for sale" and "Liabilities included in disposal groups classified as held for sale".

Addiko Group	Group of banks including Holding and six banks in Croatia, Slovenia, Serbia, Bosnia and Herzegovina and Montenegro
Bank	Addiko Bank d.d. Zagreb, Croatia
CAPEX	Capital expenditures
CBRD	Croatian Bank for Reconstruction and Development
CEO	Chief Executive Officer
CESEE	Central, Eastern and Southeastern Europe
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CHF	Swiss Franc (currency)
CIRC	Currency induced credit risk
CMO	Chief Market Officer
CNB	Croatian National Bank
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CVA	Credit valuation adjustment
EBA	European Banking Authority
EBITDA	Earnings before Interest. Tax. Depreciation and Amortization
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
ERM II	European Exchange Rate Mechanism II
EU	European Union
EUR	European Euro
FTE	Full-time Employee
FX	Foreign exchange
GDP	Gross domestic product
Group	Local consolidated group, including the Bank, HYPO ALPE-ADRIA LEASING d.o.o. - u likvidaciji (2016: Bank, HYPO ALPE-ADRIA LEASING d.o.o. - u likvidaciji and Addiko Invest d.o.o.)
HRK	Croatian Kuna (currency)
IAS	International Accounting Standard
IASB	International Accounting Standards Board
ICAAP	Internal capital adequacy assessment process
ICS	Internal Control System
IFRS	International Financial Reporting Standards
KRI	Key Risk Indicators
LGD	Loss Given Default
MKL	Minimum liquidity coefficient
NPL	Non Performing Loans
OECD	Organization for Economic Co-operation and Development
OPEX	Operating expenses
OTC	Over-the-counter
PD	Probability of Default
PMS	Portfolio Management System
SEE	South East Europe
SME	Small and Medium Enterprises
TOM	Target Operating Model
VaR	Value at Risk
yoy	year-on-year

Branch offices in Croatia

Addiko Bank d.d.

Headquarters Zagreb
Slavonska avenija 6, HR - 10000 Zagreb
Tel.: 072 101 102
e-mail: info.hr@addiko.com
www.addiko.hr

Zagreb - Črnomerec
Ilica 251, HR - 10000 Zagreb
Tel.: 072 101 102, fax: (01) 3907 170

Zagreb - Dubrava
Avenija Dubrava 43, HR - 10000 Zagreb
Tel.: 072 101 102, fax: (01) 2921 022

Zagreb - 'Express' branch
Avenija Dubrovnik 16, HR - 10000 Zagreb

Zagreb - Heinzelova
Heinzelova 9, HR - 10000 Zagreb
Tel.: 072 101 102, fax: (01) 2311 100

Zagreb - Maksimir
Maksimirska 123, HR - 10000 Zagreb
Tel.: 072 101 102, fax: (01) 2444 170

Zagreb - Slavonska
Slavonska avenija 6, HR - 10000 Zagreb
Tel.: 072 101 102, fax: (01) 6035 130

Zagreb - Trakošćanska
Trakošćanska 6, HR - 10000 Zagreb
Tel.: 072 101 102, fax: (01) 3680 333

Zagreb - Travno
Sarajevska 6, HR - 10000 Zagreb
Tel.: 072 101 102, fax: (01) 6606 333

Zagreb - Trg
Trg bana J. Jelačića 3, HR - 10000 Zagreb
Tel.: 072 101 102, fax: (01) 4880 500

Zagreb - Vrbani
Rudeška cesta 169 a, HR - 10000 Zagreb
Tel.: 072 101 102, fax: (01) 3891 362

Beli Manastir
Republike 2, HR - 31300 Beli Manastir
Tel.: 072 101 102, fax: (031) 702 600

Čakovec
Matice Hrvatske 6, HR - 40000 Čakovec
Tel.: 072 101 102, fax: (040) 311 422

Čepin
Kralja Zvonimira 5, HR - 31431 Čepin
Tel.: 072 101 102, fax: (031) 382 622

Donji Miholjac
Trg A. Starčevića 8, HR - 31540 Donji Miholjac
Tel.: 072 101 102, fax: (031) 632 225

Dubrovnik
Vukovarska 15, HR - 20000 Dubrovnik
Tel.: 072 101 102, fax: (020) 356 788

Đakovo
Ante Starčevića 5, HR - 31400 Đakovo
Tel.: 072 101 102, fax: (031) 814 967

Karlovac
Vladka Mačeka 12, HR - 47000 Karlovac
Tel.: 072 101 102, fax: (047) 614 911

Koprivnica
Zrinski trg 7, HR - 48000 Koprivnica
Tel.: 072 101 102, fax: (048) 621 333

Krk
Vela placa 1, HR - 51500 Krk
Tel.: 072 101 102, fax: (051) 220 398

Makarska
Marineta 2, HR - 21300 Makarska
Tel.: 072 101 102, fax: (021) 616 088

Metković
Ivana Gundulića 20/2, HR - 20350 Metković
Tel.: 072 101 102, fax: (020) 683 711

Našice
Trg dr. Franje Tuđmana 12, HR - 31500 Našice
Tel.: 072 101 102, fax: (031) 617 911

Nova Gradiška
Trg kralja Tomislava 3, HR - 35400 Nova Gradiška
Tel.: 072 101 102, fax: (035) 364 955

Novalja
Trg Brišćića 1, HR - 53291 Novalja
Tel.: 072 101 102, fax: (053) 663 822

Opatija
Maršala Tita 108, HR - 51410 Opatija
Tel.: 072 101 102, fax: (051) 718 455

Orahovica
Kralja Zvonimira 5, HR - 33515 Orahovica
Tel.: 072 101 102, fax: (033) 673 738

Osijek - Headquarters Slavonia and Baranja
Kapucinska 29, HR - 31000 Osijek
Tel.: 072 101 102, fax: (031) 231 226

Osijek - Donji grad
Trg bana Jelačića 25, HR - 31000 Osijek
Tel.: 072 101 102, fax: (031) 504 200

Osijek - Jug 2
Opatijska 26F, HR - 31000 Osijek
Tel.: 072 101 102, fax: (031) 565 130

Osijek - Kapucinska
Kapucinska 29, HR - 31000 Osijek
Tel.: 072 101 102, fax: (031) 231 226

Osijek - Retfala
J. J. Strossmayera 203, HR - 31000 Osijek
Tel.: 072 101 102, fax: (031) 305 122

Osijek - Sjenjak
Sjenjak 133, HR - 31000 Osijek
Tel.: 072 101 102, fax: (031) 574 100

Osijek - Trg slobode
Trg slobode 5, HR - 31000 Osijek
Tel.: 072 101 102, fax: (031) 231 303

Poreč
Vukovarska 19, HR - 52440 Poreč
Tel.: 072 101 102, fax: (052) 428 511

Požega
Sv. Florijana 10, HR - 34000 Požega
Tel.: 072 101 102, fax: (034) 313 233

Pula
Flanatička 25, HR - 52100 Pula
Tel.: 072 101 102, fax: (052) 384 500

Rijeka - Headquarters Istria and Kvarner
Korzo 11, 3. floor, HR – 51000 Rijeka
Tel.: 072 101 102, fax: (051) 501 207

Rijeka - Jadranski trg
Jadranski trg 3, HR - 51000 Rijeka
Tel.: 072 101 102, fax: (051) 211 612

Rijeka - Korzo
Ante Starčevića 2, HR - 51000 Rijeka
Tel.: 072 101 102, fax: (051) 317 497

Rovinj
Nello Quarantotto bb, HR - 52210 Rovinj
Tel.: 072 101 102, fax: (052) 841 100

Samobor
Livadićeva 20, HR - 10430 Samobor
Tel.: 072 101 102, fax: (01) 3360 600

Sesvete
Zagrebačka 16, HR - 10360 Sesvete
Tel.: 072 101 102, fax: (01) 2015 844

Sisak
S.S.Kranjčevića 11, HR - 44000 Sisak
Tel.: 072 101 102, fax: (044) 540 411

Slatina
Trg sv. Josipa 2, HR - 33520 Slatina
Tel.: 072 101 102, fax: (033) 550 988

Slavonski Brod
Kralja P. Krešimira IV. 3, HR - 35000 Slavonski Brod
Tel.: 072 101 102, fax: (035) 409 822

Solin
Kralja Zvonimira 87b, HR – 21210 Solin
Tel.: 072 101 102, fax: (021) 211 200

Split - Headquarters Dalmatia
Domovinskog rata 49, HR - 21000 Split
Tel.: 072 101 102, fax: (021) 308 666

Split - Brodarica
Domovinskog rata 49, HR - 21000 Split
Tel.: 072 101 102, fax: (021) 308 607

Split - Firule
Spinčićeva 2b, HR – 21000 Split
Tel.: 072 101 102, fax: (021) 388 775

Split - Poljička
Poljička cesta 39, HR - 21000 Split
Tel.: 072 101 102, fax: (021) 466 111

Šibenik
Stjepana Radića 77a, HR - 22000 Šibenik
Tel.: 072 101 102, fax: (022) 312 700

Umag
Trgovačka 4c, HR - 52470 Umag
Tel.: 072 101 102, Fax: (052) 722 344

Valpovo
Trg kralja Tomislava 11a, HR – 31550 Valpovo
Tel.: 072 101 102, Fax: (031) 654 145

Varaždin
Zagrebačka 61, HR - 42000 Varaždin
Tel.: 072 101 102, fax: (042) 321 044

Velika Gorica
Trg kralja Petra Krešimira IV br. 3, HR - 10410 Velika Gorica
Tel.: 072 101 102, fax:. (01) 6379 616

Vinkovci
Duga 40, HR - 32100 Vinkovci
Tel.: 072 101 102, fax: (032) 331 411

Virovitica
Ferde Rusana 1, HR - 33000 Virovitica
Tel.: 072 101 102, fax: (033) 726 111

Viškovo
Vozišće 5, HR - 51216 Viškovo
Tel.: 072 101 102, fax: (051) 227 700

Vukovar
Franje Tuđmana 4, HR - 32000 Vukovar
Tel.: 072 101 102, fax: (032) 450 127

Zadar I
Jurja Barakovića 4, HR - 23000 Zadar
Tel.: 072 101 102, fax: (023) 316 544

Zadar II
Zrinsko Frankopanska 40, HR - 23000 Zadar
Tel.: 072 101 102, fax: (023) 316 944

Zaprešić
Mihovila Krušlina 22, HR - 10290 Zaprešić
Tel.: 072 101 102, fax: (01) 3398 629

Županja
Veliki kraj 64, HR - 32270 Županja
Tel.: 072 101 102, fax: (032) 830 355

Hypo Alpe-Adria-Leasing d.o.o. - in liquidation
Slavonska avenija 6a, HR - 10000 Zagreb
Tel.: (01) 6036 000, fax: (01) 6036 001, 002 / +385 1 6324 445
e-mail: leasing.croatia@hypo-alpe-adria.hr
www.hypo-leasing.hr

Addiko Bank

Addiko Bank d.d. Zagreb and subsidiaries

Responsible for content:

Addiko Bank d.d.
Slavonska avenija 6, HR-10000 Zagreb
tel. +385/1/603 0000
fax +385/1/600 7000
Customer Service: 0800 14 14
e-mail: info.hr@addiko.com
www.addiko.hr

Layout:

Kreda d.o.o.
Zagrebačka 30, HR-42000 Varaždin
e-mail: studio@kreda.hr
www.kreda.hr

Important notice:
This Annual Report has been prepared with great care and the information it contains has been checked. The possible occurrence of rounding errors, typesetting and printing errors, and errors in expression can however not be precluded. The English language report is a translation; the Croatian is the authentic language version.