Addiko Bank

Annual Report 2018

Addiko Bank d.d. Croatia

Key data

in HRK million

	2018	2017	Change (%, pts)
Profit or Loss statement			
Net interest income	462.5	480.6	-3.8%
Net fee and commission income	174.1	173.9	0.1%
Other operating income	78.2	105.5	-25.9%
Operating expenses	(495.8)	(482.5)	2.8%
Operating result	**219.0**	**277.5**	**-21.1%**
Impairment losses and provisions	(30.8)	(124.2)	-75.2%
Income tax	(17.3)	76.4	-122.6%
Net profit for the year	**170.9**	**229.7**	**-25.6%**
Selected items of the Statement of financial position			
Loans and receivables from customers	10,075.6	10,446.6	-3.6%
Current accounts and deposits from customers	13,597.2	15,503.4	-12.3%
Equity	2,898.6	2,861.0	1.3%
Total assets	18,380.4	21,199.1	-13.3%
Risk-weighted assets	11,638.0	11,774.6	-1.2%
Key ratios			
Net interest income/ total average assets	2.3%	2.3%	0.0
Cost/income ratio	69.4%	63.5%	5.9
Loan to Deposit Ratio	74.1%	67.4%	6.7
Non-Performing Loan Ratio	6.6%	8.8%	-2.2
Cost of Risk Ratio	0.3%	1.0%	-0.7
NPL coverage Ratio	73.0%	64.2%	8.8
Bank-specific figures			
Core Tier 1 ratio	22.8%	20.1%	2.7
Total capital ratio	27.2%	27.8%	-0.6

Contents

Letter from the CEO

Dear clients, partners, employees and shareholders,

for Addiko Bank the year 2018 was a successful one, marked by business progress, growth in strategic segments, system modernization, remarkable achievements and distinguished international awards, and on that positive wave Addiko Bank enters the year 2019 with great optimism and even greater ambition.

I am exceptionally proud of all what we at Addiko Bank have achieved in 2018 and have no doubt that, in 2019 and the years to come, we will do even better, while developing our business on the three key business determinants: Retail Business with emphasis on Consumer Lending, SME Business and Transaction Banking. In a market where our peers want to be a universal bank we decided to be different, more original and focused. We decided to be a bank specialized in these three segments, but we will be the best in each of these segments. In fact, we proved this in the previous year when our strategic loan portfolio (Consumer Loans and SME) grew by 16%, which was accompanied by the 32% growth in revenues and what contributed to recording a profit before tax which is 22.8% higher than in 2017. However, we know that we can and must do better.

We are also aware of the fact that the business environment is changing at an exceptional pace due to technological development. Accordingly, one of the biggest business challenges in the future and the benchmark of success will be the digital user experience, especially given that consumers in all their interactions with the bank look for a modern, practical, intuitive, and efficient digital service.

Precisely these are the principles based on which Addiko Bank will continue developing in the upcoming years. Digital strategy is the key part of the Bank's business strategy and it considerably contributed to the overall business success, starting with the infrastructural improvements, system modernization, more effective internal processes and procedures, two-digit percentage growth of digital clients, but also, in general, with higher customer satisfaction, and finally, award for innovative digital solutions and the award for the Best Bank in Croatia in 2018.

During the last 12 months we introduced various highly digital services, and have just recently “made a digital jump to light speed” by presenting our Virtual branch, the first digital branch in Croatia and with it enabling a fully digital loan process and current account opening process, without any need to physically visit a branch. Addiko Virtual branch is an excellent example of the Bank’s digital transformation of and it represents the future of banking.

Addiko Bank today has a solid foundation, stable customer base, high liquidity, distinctive brand and desirable image. We are entering 2019 with competitive pricing in the Retail segment, with an excellent acquisition and growth momentum in the SME segment and a clear and ambitious strategy.

Focusing on its strategic business segments, products and services, and aiming to achieve operational excellence and providing an advanced user experience Addiko Bank continues to develop its operations with a clear message for our clients, partners, employees and shareholders – the best is yet to come.

Sincerely,

Mario Žižek

The Management Board

Mario Žižek
Chief Executive Officer, Chief Financial Officer & Chief Retail Banking Officer*

Responsible for:
Board Assistance and Corporate Governance Office
Legal and Compliance
Internal Audit
Group Human Resources Management
Group Economic Research
Accounting and Reporting
Balance Sheet Management and Treasury
Management Information System
Group Business Controlling
Retail Product and Client Value Management*
Retail Channels and Sales Management*
Group Retail Markets Development*
Marketing*
Hypo Alpe-Adria-Leasing d.o.o. – u likvidaciji**

Jasna Širola
Chief Operations Officer & Chief Retail Banking Officer*

Responsible for:
Group Transaction Banking and Operations
Information Technology
Real Estate Management
Card Processing Centre
Group Procurement
Security
Digital Transformation
Retail Product and Client Value Management*
Retail Channels and Sales Management*
Group Retail Markets Development*
Marketing*

** Mario Žižek was, in addition to his role as CEO and CFO, on 17 December 2018 also appointed CRBO, taking over the function from Jasna Širola. Jasna Širola remains COO.*

*** As of 12 December 2018 Mario Žižek resigned from the Supervisory Board of the Hypo Alpe-Adria-Leasing d.o.o. – u likvidaciji due to the sale of the company.*

Ivan Jandrić
Chief Corporate Banking Officer

Responsible for:
Large Corporate and Public Finance
Small and Medium Enterprises
Group Product Management – Business Entities Sales

Dubravko-Ante Mlikotić
Chief Risk Officer

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

Joško Mihić
Procurator

Responsible for advising on CFO matters:

Finances
Accounting
Treasury
Hypo Alpe-Adria-Leasing d.o.o. – u likvidaciji**

*** As of 12 December 2018 Joško Mihić resigned from the Supervisory Board of the Hypo Alpe-Adria-Leasing d.o.o. – u likvidaciji due to the sale of the company.*

Management Report for the year ended 31 December 2018

1. Overview of Addiko Bank

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

Addiko Group operates through six banks with its core business in Croatia, Slovenia, Bosnia and Herzegovina, Serbia and Montenegro and it provides services to about 860.000 clients. The Group's strategy is focused on these six markets in the CSEE region delivering core products and services relevant to Retail as well as Small and Medium Enterprises (SME) and Corporate customers, while also taking online deposit in Austria and Germany.

The holding company AI Lake (Luxembourg) S.à r.l. is the direct parent company of the Addiko Group 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 2018

Croatian GDP increased by 2.6% in 2018, slightly below consensus expectations from the beginning of the year. Strong consumer momentum, tourism records and robust sentiment supported private consumption growth, as citizens benefited on employment growth and higher wages, re-leveraging, tax cuts and remittances.

Notwithstanding somewhat weaker performance in the first part of the year, investments growth picked-up supported by business optimism, stronger EU funding, higher firms' profits and strong increase in new corporate investment loans. Merchandise exports slowed down owing to external demand deterioration, in part compensated by services export growth amid another record tourist season. However, net trade contribution remained negative due to robust import given intensive domestic demand and commodity price normalization.

Following the first ever fiscal surplus in 2017, 2018 is expected to end with a small budget surplus as the effects of VAT, social contributions and spending restraints were largely offset by the activation of guarantees for one shipyard at the year end. Meanwhile, stronger HRK alongside faster nominal GDP growth and further fiscal reductions helped to reduce public debt towards 73% of GDP.

At the same time, bank lending accelerated driven by increased lending to the Retail segment as stronger labour market and consumer sentiment propelled demand for non-purpose cash loans, while renewed state-subsidized schemes supported housing loans growth in the second part of the year. Banks' interest rates remained close to their record lows on the account of continued ECB/CNB easing and intensified bank competition. Corporate lending continued its recovery (SME segment in particular) driven by improving business optimism, easier credit standards and a low interest rate environment in addition to pick-up in EU funding.

3. Significant events in the financial year 2018

3.1. Organizational structure and Target Operating Model implementation

The implementation of the Target Operating Model continued during the year 2018 with further approvals of non-critical 'Central Steering' and 'Group Shared Services' functions received from the Croatian National Bank.

The Target Operating Model aims to raise levels of productivity and improve efficiency across the organization. The 'Central Steering' and 'Group Shared Services' functions provide a higher degree of specialization and standardisation by sharing best practices and therefore raising the quality of service delivery and steering while reducing simultaneously the cost of delivery. Additionally, the Target Operating Model enables highly skilled employees to widen their perspectives and scope of work as well as to work in a multi-cultural environment.

3.2. Digital transformation and building digital capabilities

Digital strategy is an essential part of the Addiko Bank's business strategy and has significantly contributed to the Bank's overall success, whilst also resulting in double digit growth of digital customers and acknowledgements such as receiving the 'Digital Innovator of the Year' recognition.

Addiko Bank continued its digital efforts by launching new key digital initiatives such as a completely new e-banking system for the Corporate and SME segment, which leveraged the functionalities created for the Retail segment. This platform was developed in an agile approach, leveraging the Bank's capabilities in close cooperation with the customers and enables an easier handling of day to day tasks, allows customers to monitor their existing trade finance and loan products online and sets the stage for further convenient product initiatives.

Creating new digital capabilities is one of Addiko Bank's strategic focus points with the Bank investing a significant amount of resources in modernization of its operations, processes, procedures, product and service portfolio, data analytics, in identifying innovative solutions that directly correspond with specific customer needs and implementing proven solutions. In pursuing this approach, Addiko Bank's goal is to be recognized as a market leader in delivering convenient banking solutions to its customers.

3.3. Cost management and efficiency gains

With a continued focus in process optimization and establishing a lean, efficient, agile and integrated organization, the existing IT applications and landscape were further consolidated during 2018.

Despite additional investments to grow the business and enhance the Bank's digital capabilities the Bank maintained overall normalized operating expenses stable as a result of ongoing cost improvement initiatives and achieved HRK 9.1 million of savings in Corporate real estate management area due to further space and branch optimizations.

Addiko Bank is well positioned for further significant improvements of the overall efficiency and with positive effects on the cost-to-income ratio (CIR) in years to come.

3.4. Focusing on ensuring great customer experience

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

As part of its continuous focus on improving customer experience, Addiko Bank's Net Promoter Score (NPS) platform started to operate in 2018, with customer satisfaction levels constantly improving.

3.5. Review of the business strategy

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

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

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

Based on this approach, Addiko Bank reached its goal of transforming the business towards strategic core segments with a focus on growing its Consumer Business and SME lending activities as well as payment services (its "focus areas"), offering unsecured personal loan products for consumers and working capital loans for its SME customers funded largely by retail deposits. The Bank's Mortgage Business, Public Finance and Large Corporate lending portfolios (its "non-focus areas") were further reduced over time, with repayments by customers exceeding the new business generated in those fields, thereby providing liquidity and capital for the gradual growth in its focus areas. Any new lending products in non-focus areas are offered on a valid business case basis only. Furthermore, the Bank continued on its journey of building a distinctive operating model with digital capabilities.

Building on its successful initial strategy, Addiko will now take further steps to become the go-to-bank for selected products with execution excellence, serving basic banking needs with straightforward, most convenient and fastest customer experience based on a clear and transparent communication.

3.6. Branches

At year end 2018 Addiko Bank operated a total of 59 branches (2017: 60) in line with its business and digital strategy to focus on ensuring the clicks & bricks balance, while at the same time leveraging customer experience by offering the best from the multi-channel approach through unique services such as the unique highly-digital Addiko Express and Addiko Virtual branches.

3.7. Financial performance in brief

After having delivered on the turnaround in 2017, the Bank continues its path towards achieving an appropriate return on equity and shows good progress by realizing profit before tax of HRK 188.2 million in 2018 (2017: 153.3 million) which represents a 22.7% increase year-on-year. Though, profit after tax is lower compared to 2017 due to one-off recognition of deferred tax assets in 2017 related to losses carried forward from prior periods in amount of HRK 76.4 million.

This is the result of ongoing focus on changing the loan portfolio mix from less profitable segments such as mortgages and public finance towards higher margin Consumer and SME lending. The Bank further increased the share of these two focus segments from 42% in 2017 to 49% in 2018 while maintaining the overall loan book stable.

Net interest income improved by 0.2% comparing to 2017 normalized for IFRS 9 application effects, with an improved normalized NIM at 2.2% (2017: 2.0%) supported by excess liquidity optimisation via early repayment of HRK 738.6 million hybrid line to Addiko Group and deposit price and volume optimisation while maintaining a strong Loan-to-Deposit ratio at 74.1% (2017: 67.4%). Customer deposits remained the Bank's primary funding source at HRK 13,597.2 million (2017: HRK 15,503.4 million) resulting in a strong funding base and liquidity position with more than 74% of funding provided by customer deposits (2017: 73%).

Net fee and commission income slightly improved to HRK 174.1 million (2017: HRK 173.9 million) as a consequence of growth in Consumer lending, new fee models and new product packages.

Operating expenses amounted to HRK 495.8 million (2017: HRK 482.5 million). Excluding one-off write-off of other IT assets in the amount of HRK 7.9 million recorded in 2018, on normalized level operating expenses remained stable as a result of disciplined and firm cost management and implementation of new Target Operating Model.

With a strong capital base, an above average Capital Adequacy Ratio and a high Total Capital Ratio of 27.2% (2017: 27.8%), the Bank continues to rank at the very top in terms of the best capitalized banks in Croatia.

The performance in reduction of NPLs remains strong, driven by a focus on workout and collection as well as debt sales programs, leading to a 27.8% decline in the non-performing exposure to HRK 1,394.9 million (HRK 1,932.2 million at YE17). At year end 2018 the conservative risk profile is best reflected by an NPE Coverage Ratio of 73.0% (YE17: 64.0%) and a further reduced NPE ratio (Credit Risk Bearing based) to 10.1% (YE17: 13.8%). The development of the expected credit losses is positively influenced by successfully executed restructuring measures among larger individual customers as well as net releases in the SME segment. This effect is partially offset by charges in the non-focus Corporate segment during 2018 in particular due to one large Croatian retail customer.

3.8. Adoption of IFRS9

On 1 January 2018, IFRS 9, the new accounting standard for financial instruments, took effect. This replaces IAS 39, which was the previous accounting standard for measurements and classification of financial instruments. The regulations set out in the new standard are primarily reflected in the classification of financial assets and loan loss provision calculations, as they apply to impairment losses on financial assets measured at amortised cost or at fair value recognised through other comprehensive income. Under IFRS 9 the impairment requirements also apply to credit commitments and financial guarantees.

The model used to determine impairment losses was changed, from a historically oriented model under IAS 39 (incurred losses) to a future oriented model under IFRS 9 (expected credit losses).

The new accounting rules change the way banks look at their credit risk by defining a different calculation logic and a different timing when losses have to be recognized. The standard splits the calculation in so called three stages. For stage one the 12 months expected credit loss has to be calculated, while for stage two the lifetime expected credit risk is of relevance. Stage 3 rules the non-performing part of the portfolio. The distinction on which stage has to be applied is made based on the change in credit risk since initial recognition. The credit risk at initial recognition has to be compared to the reporting date. In case of a so-called "significant" increase the transaction is assigned to stage two, otherwise to stage one. Defaulted assets are in stage three.

As a consequence, two different calculation approaches are necessary from a methodological point of view for the impairment stream in the performing loan area, one for stage one and one for stage two. In addition to the different stages, the estimation used for any of the calculations needs to be forward looking, reflecting the current and future economic environment (so called point in time view). This forward-looking framework should be probability weighted to consider different outcome possibilities as well.

The new rules on valuation are by contrast of lesser significance. In total, additional HRK 131.8 million of financial instruments must be accounted for at fair value and recognised in the profit and loss statement. The adoption results in an adjustment to equity of HRK -6.6 million. Impairment losses increased by HRK 8.1 million. The effect on classification and valuation amounts to a positive effect of HRK 1.5 million.

3.9. Repayment of the Tier2 capital line

As means of optimising Banks liquidity position while at the same time preserving the highest capital ratio between peer banks on the local market Addiko Bank has executed the premature repayment of Tier2 Capital in the amount of HRK 738.6 million.

This repayment had several benefits for the Bank out of which the most significant one was the increase of net interest income in the amount of HRK 31.2 million (annualised HRK 51.9 million). In addition to named savings the Bank also reduced interest expenses arising from negative interest rate on excess euro liquidity in the amount of approx. HRK 1.9 million.

3.10. General Data Protection Regulation (GDPR)

The new EU directive on personal data (GDPR), which entered into force on 25 May 2018, implies that the rights of data subjects have been strengthened, and that data controllers and data processors are subject to new requirements when managing and handling personal data. Owning to the importance of this change in regulation, Addiko Bank is fully compliant with the GDPR requirements.

3.11. Sale of non-core assets

In line with the strategy of focusing on its core banking business the Bank successfully sold its leasing business including Hypo Alpe-Adria-Leasing d.o.o. – u likvidaciji.

4. Financial development of the Bank

4.1. Analysis of profit or loss statement

in HRK million

	2018	2017	Change (%)
Net interest income	462.5	480.6	-3.8%
Net fee and commission income	174.1	173.9	0.1%
Net trading income	33.8	62.5	-45.9%
Net investment income	10.5	10.0	5.0%
Net foreign exchange differences	3.6	(19.8)	-118.2%
Other operating income	30.3	52.8	-42.6%
Operating income	**714.8**	**760.0**	**-5.9%**
Personnel expenses	(232.5)	(228.1)	1.9%
Depreciation	(16.8)	(21.2)	-20.8%
Amortization	(9.9)	(8.0)	23.8%
Other operating expenses	(236.6)	(225.2)	5.1%
Operating expenses	**(495.8)**	**(482.5)**	**2.8%**
Net impairment loss on financial assets	(29.6)	(116.0)	-74.5%
Other impairment losses and provisions	(1.2)	(8.2)	-85.4%
Profit before tax	**188.2**	**153.3**	**22.8%**
Income tax	(17.3)	76.4	-122.6%
Net profit for the year	**170.9**	**229.7**	**-25.6%**

Net interest income decreased to HRK 462.5 million, compared to HRK 480.6 million in 2017. This development is a direct consequence of IFRS 9 application starting from 1st of January 2018 which limits comparability to previous year's figures.

By excluding the IFRS 9 effects (unwinding income from 2018 in the amount of HRK 32.5 million and suspended income from 2017 in the amount of HRK 51.5 million) on normalized level net interest income increased by 0.2%.

Compared to the prior year, normalized **net interest margin** increased to 2.2% (2017: 2.0%). This positive development is a result of an increasing share in higher margin Consumer and SME lending, the Bank's dedicated focus on risk-adjusted pricing, supported by excess liquidity optimisation via early repayment of HRK 738.6 million hybrid line to Addiko Group and deposit price and volume optimisation.

Net fee and commission income slightly improved to HRK 174.1 million (2017: HRK 173.9 million) as a consequence of growth in Consumer lending, new fee models and new product packages.

The **other operating result** (including trading, investment, foreign exchange and other operating income) showed a positive result of HRK 78.2 million (2017: HRK 105.5 million). Last year's result reflected the positive one-off effect resulting from sale of Addiko invest which amounted to HRK 23.0 million while 2018 has been slightly affected with lower trading and foreign exchange results due to a decrease in EUR/HRK volatility on local market compared to the previous year.

Operating expenses amounted to HRK 495.8 million (2017: HRK 482.5 million) and includes additional investments to grow the business and enhance the digital capabilities of the Bank and a HRK 7.9 million write-off of other IT assets. On normalized level operating expenses remained stable evidencing the relentless focus on running the bank efficiently.

The development of **impairment or reversal of provisions on financial** assets is not comparable to previous year's figures due to implementation of IFRS 9**.** The negative result of HRK 29.6 million in 2018 reflects additional allocations for large Croatian retailer in the amount of HRK 92.9 million and two defaults in SME segment in amount of HRK 38.6 million. On the other hand, the Bank successfully executed restructuring measures among larger individual customers in the corporate segment as well as the collection activities and recovery/settlement agreements within the Retail segment which compensated above mentioned negative impacts.

Other impairments and provisions amounted HRK -1.2 million in 2018 (2017: HRK -8.2 million) and was positively affected by a one-off release of a provision arising from successful sale of Hypo Alpe-Adria-Leasing in amount of HRK 12.1 million.

Taxes on income amounted to HRK -17.3 million (2017: HRK 76.4 million income) as a result of realization of temporary differences and adjustment of deferred tax assets on losses carried forward.

4.2. Analysis of statement of financial position

in HRK million

	2018	2017	Change (%)
Assets			
Cash and balances with Croatian National Bank	3,124.6	4,817.0	-35.1%
Trading assets	99.1	33.4	196.7%
Derivative financial assets	5.7	7.3	-21.9%
Loans and receivables from banks	2.5	487.2	-99.5%
Loans and receivables from customers	10,075.6	10,446.6	-3.6%
Investment securities	4,607.2	4,836.6	-4.7%
Investment property	6.1	6.4	-4.7%
Property and equipment	203.2	203.9	-0.3%
Intangible assets	59.9	48.0	24.8%
Non-current assets and disposal groups classified as held for sale	22.4	115.0	-80.5%
Deferred tax assets	101.7	112.3	-9.4%
Current tax assets	0.7	0.7	0.0%
Other assets	71.7	84.7	-15.3%
Total assets	**18,380.4**	**21,199.1**	**-13.3%**

Addiko Bank adopted the requirements of IFRS 9 "Financial Instruments" on 1 January 2018. The classification and measurement and impairment requirements of IFRS 9 were applied retrospectively by adjusting the opening balance sheet at the date of the initial application. As permitted by IFRS 9, Addiko Bank has not restated comparative periods. Therefore, the balance sheet structure compared to year end 2017 was adjusted to the new requirements according to IFRS 9 and thus comparability with the previous period figures is limited.

Total assets of Addiko Bank decreased to HRK 18,389.4 million (2017: HRK 21,199.1 million) mainly as a result of excess liquidity optimisation and strategic reduction of non-focus Loans and receivables from customers.

Excess liquidity optimization was primarily done via early repayment of Tier2 Capital in the amount of HRK 738.6 million and a reduction of customer deposit prices. Additional impact on liquidity reduction was caused by new legislation related to pension funds that came into force in the last quarter of 2018. This legislation imposed pension funds to diversify their cash positions throughout the Banking sector. Maximum allowed holding in each single bank, according to named legislation, is limited to 5% of bank's regulatory capital. Consequently, Addiko Bank, as one of two custody banks for pension funds on the market, was faced with a reduction of pension funds cash positions. All of the stated measures decreased the following asset positions of the Bank:

- Cash and balances with Croatian National Bank
- Loans and receivables from banks
- Investment securities.

Loans and receivables from customers reduced by 3,6% to HRK 10,075.6 million (2017: HRK 10,446.6 million) due to the successful implementation of the business strategy and repositioning within the market, thus realizing significant growth of new disbursements in strategic higher margin business segments and products, while strategically reducing the non-focus loan book (i.e. mortgage, large corporate and public portfolio).

Property and equipment remained with HRK 293.2 million on approximately same level comparing to prior year (2017: HRK 203.9 million) while i**ntangible assets** increased to HRK 59.9 million (2017: HRK 48.0 million) due to the further development of new e-banking applications and investments to enhance Addiko Bank's digital capabilities.

Non-current assets and disposal groups classified as held for sale decreased to HRK 22.4 million (2017: HRK 115.0 million) due to the successful reduction of the loan portfolio reclassified in this position at the end of 2017 which was subsequently sold in 2018.

Tax assets decreased to HRK 102.4 million (2017: HRK 113.0 million) as a result of the realization of temporary differences and adjustment of deferred tax assets on losses carried forward.

in HRK million

	2018	2017	Change (%)
Liabilities and equity			
Derivative financial liabilities	4.2	2.7	55.6%
Current accounts and deposits from banks	178.3	93.6	90.5%
Current accounts and deposits from customers	13,597.2	15,503.4	-12.3%
Borrowings	358.9	577.8	-37.9%
Subordinated debt	1,028.4	1,793.6	-42.7%
Provisions	131.0	180.9	-27.6%
Other liabilities	183.8	186.1	-1.2%
Total liabilities	**15,481.8**	**18,338.1**	**-15.6%**
Share capital	2,558.9	2,558.9	0.0%
Profit for the year	170.9	229.7	-25.6%
Retained earnings/(accumulated losses)	(6.0)	0.4	-1600.0%
Reserves	174.8	72.0	142.8%
Total equity	**2,898.6**	**2,861.0**	**1.3%**
Total liabilities and equity	**18,380.4**	**21,199.1**	**-13.3%**

On the liabilities' side, the **Current accounts and deposits to customers** decreased to HRK 13,597.2 million (2017: HRK 15,503.4 million) as a result of price and volume optimization.

In May 2018 the Bank prematurely repaid Tier 2 Capital in the amount of HRK 738.6 million to Addiko Group thus reducing **Subordinated debt** by 42.7% to HRK 1,028.4 million at the end of 2018.

Provisions (non-loan portfolio related) decreased to HRK 131.0 million (2018: HRK 180.9 million). The development was mainly driven by releases and utilization of provisions for legal risks in connection with the successful settlement of some long term lasting court cases and the updated assessment of risks in connection with customer protection claims. In addition, the decrease of restructuring provisions is reflecting the well-advanced stage of the turn-around process which started in 2015.

The development of **equity** from HRK 2,861.0 million in 2017 to HRK 2,898.6 million in 2018 is mainly the result of profit after tax realized throughout 2018, a dividend payment in the amount of HRK 102 million, and effects of sale or revaluation of financial assets measured at fair value through other comprehensive income.

5. Analysis of non-financial key performance indicators

5.1. Human Resources Management

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

The performance and talent management frameworks are key processes used to identify, develop, reward and recognise high performance and talented employees. The two processes support Addiko Bank's journey to build a great place to work, aiming to become an employer of choice, attracting talents and offering opportunities for employees to develop their careers. The notable progress Addiko Bank made in Human Resource Management is also seen in the fact that the Bank has for the first time received a certificate 'Employer Partner' which acknowledges the implementation of excellence in Human Resources standards.

In 2018, there were many areas of focus in Human Resources, with new training programs piloted to develop leadership capabilities. Standardizing Human Resources processes was continued in the areas of recruitment, on boarding and personnel cost reporting. A new online platform was introduced across all countries, decreasing the administration and elevating digital recruitment. A key enabler of culture change was continuous internal communication and implementation of leadership standards for managers and desirable work-place behaviours (the Addiko 'Values and Behaviours'). These were integrated into the Performance Management, Talent and Leadership Development programs and initiatives of 2018.

At 2018 yearend Addiko Bank had 1,025 FTEs (2017: 1,034).

In the upcoming period, the focus will be on elevating the cultural and business transformation of Addiko Bank ensuring that our 'Values and Behaviours' are integrated into daily performance. This will require effective HR metrics in place to ensure that the most qualified employees hold key positions and that the Bank is developing critical skills needed to be a bank which is an innovation leader and a digital disruptor in the countries where it operates.

6. Internal control system for accounting procedures

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

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

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

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

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

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

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

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

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

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

7. Consolidated non-financial report

In line with the EU regulation Addiko Bank fully complies with the Directive 2014/95/EU and the rules on disclosure of non-financial and diversity information. The Bank operates and manages social and environmental related topics by continuously developing 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 is prepared on consolidated level, published online and can be found on Addiko Group's website www.addiko.com.

8. Research & Development

Addiko Bank does not conduct any Research & Development activities.

9. Outlook

The banking industry in CSEE markets, in which Addiko operates, as well as in the rest of Europe is expected to continue its transformation facing several challenges in the form of a low interest environment, general pricing pressure stemming from over-liquidity in the markets, developments in regard to regulatory requirements and technology advancements.

The bank is successfully positioned as an innovative and focused unsecured Consumer and SME specialist lender to drive profitable growth and margin expansion while maintaining a balanced risk-return profile and a well-capitalized and predominantly deposit funded balance sheet.

In 2019 we expect somewhat slower economic growth on the account of weakening external demand, while economic downswing in the main trading partners might result in further deterioration of industrial confidence. Nonetheless, growth remains supported by stronger investment activity, some fiscal easing and higher EU funding prospects, while improved labour markets, steady wage growth and falling inflation continue to underpin private consumption going forth.

The positive developments in private consumption and relatively robust consumer sentiment are expected to support an ongoing shift towards unsecured lending, as observed over the past years. Further foreign direct investment inflows and integration of CSEE SMEs in the global value chains, as well as growth in bilateral trade among CSEE countries and the rest of Europe are expected to continue benefiting SMEs in the region.

The increasing digitalization in still digitally underpenetrated economies is expected to further support the business model and strategy for years to come. With the risks surrounding the country's biggest food-to-retail group fading after the key debt settlement, Addiko Bank sees stronger investments based on soaring construction activity, stronger EU funding, corporate re-leveraging and record profits, plus equipment capital expenditures in response to competitiveness gains and policy-led optimism.

Addiko Bank is continuing to develop the business model and franchise to support its strategy via selected key initiatives:

- Complement physical channels with increasing digital capabilities and alternative sales channels
- Continued implementation of the digital roadmap with the aim to improve service and sales capabilities, increase number of customer touch points and overall customer experience
- Continued execution of Addiko's digital SME transformation progressing towards a consolidated, digitally integrated platform, as well as further digital product features (overdraft and revolving loan) building on a Group-wide business process management platform.

In 2018 Addiko Bank continued with strong performance with yet again a solid profit of HRK 170.8 million. This reiterates that Addiko is well positioned as an innovative unsecured Consumer and SME specialist lender with strong foundations in place to achieve long term sustainable profitability in a market dominated by incumbent universal banks.

The Bank's focus will stay on a rigorously managed risk-return profile and self-funding principle, while providing customers with fast and convenient straightforward banking products and services.

Addiko Bank d.d. Zagreb

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

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") for the year.

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

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

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

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

These financial statements were authorized for issue by the Management Board on 27 February 2019 and were signed on its behalf as follows:

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

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Addiko Bank d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited financial statements of Addiko Bank d.d. (the Bank), which comprise statement of financial position as at 31 December 2018, statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the Bank's financial position as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with statutory accounting requirements for banks in Croatia.

Basis for Opinion

We conducted our audit in accordance with the Audit Act and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Impairment allowances for expected credit losses on loans and receivables from customers and related effects of IFRS 9 transition

Effective from 1 January 2018, the statutory accounting requirements for banks in the Republic of Croatia was amended in order to introduce IFRS 9 – Financial Instruments ('IFRS 9') which replaces IAS 39 - Financial Instruments: Recognition and Measurement.

In order to align the statutory accounting requirements for banks to those of IFRS 9, Croatian National Bank ('CNB') issued "Decision on classification of exposures to risk classes and method to determine credit losses" (Official Gazette 114/2017), which provided additional guidance to impairment area of IFRS 9 within statutory reporting framework.

Related effects from IFRS 9 transition (first time adoption) on loans and receivables from customers as at 1 January 2018 are disclosed in Note 2b *Disclosure of financial impact of IFRS 9*.

This version of the auditor's report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the auditor's report takes precedence over translation.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Impairment allowances for expected credit losses on loans and receivables from customers and related effects of IFRS 9 transition

For the accounting policies refer to Specific accounting policies Note IIb. For the additional information regarding identified key audit matter, refer to Note 14, Note 20 and Note 41.1 to the financial statements.

Credit risk represents one of the most important types of financial risks to which the Bank is exposed to. Determining appropriate methods and models by the Management to measure and manage credit risk is therefore one of the most important areas in safeguarding the Bank's capital. As part of the credit risk management process, appropriate determination impairment allowances for expected credit losses on loans and receivables from customers represent key considerations for Bank's Management.

Additionally, from 1 January 2018, the Bank, as a result of IFRS 9 implementation, introduced new model for impairment measurement which is based on the expected credit loss model and not on the incurred loss, as previously used under IAS 39 - Financial Instruments: Recognition and Measurement.

In determining both the timing and the amount of impairment allowances for expected credit losses on loans and receivables from customers, the Management exercises significant judgement in relation to the following areas:

- Use of historic data in the process of determining risk parameters
- Estimation of the credit risk related to the exposure
- Assessment of stage allocation
- Assessment on the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether significant increase in credit risk has occurred, leading to changes in stage allocation and the required measurement of lifetime expected credit losses
- Expected future cash flows from operations
- Valuation of collateral and assessment of realization period

Since determination of appropriate impairment allowances for expected credit losses on loans and receivables requires use of complex models (generally dependent on IT elements) and significant judgement from the Management, process of measuring expected credit losses may be exposed to management bias. This fact, in addition to the adoption of IFRS 9 within statutory reporting framework for banks in Republic of Croatia, led to the determination of impairment allowances for expected credit losses on loans and receivables from customers as key audit matter in our audit of the Bank's financial statements for the year ended 31 December 2018.

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Key Audit Matters (continued)

How our audit addressed the key audit matter

In order to address the risks associated with impairment allowances for expected credit losses on loans and receivables from customers, identified as key audit matter, we have designed audit procedures that allowed us to obtain sufficient appropriate audit evidence for our conclusion.

We performed following audit procedures with respect to area of loans and receivables from customers:

- Reviewing the Bank's methodology for recognizing impairment allowances for expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9 within statutory reporting framework
- Obtaining understanding of control environment and internal controls implemented by the Management within the process of measuring impairment allowance for expected credit losses
- Evaluating design and inspecting implementation of identified internal controls relevant to the process of measuring impairment allowance for expected credit losses
- Testing identified relevant controls for operating effectiveness
- Assessing quality of historical data used in determination of risk parameters and evaluating the appropriateness of IT elements and data processing
- Disaggregating loans and receivables from customers account balance based on stage allocation and relevant segments for the purposes of sample selection - for Stage 3, individually assessed loans and receivables, the criteria for selection included, but was not limited to, client's credit risk assessment, industry risk, days past due, etc.
- Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of loans and receivables allocated to Stage 1 and Stage 2, focusing on:
    i. models applied in stage allocation
    ii. assumptions used by the Management in the expected credit loss measurement models
    iii. criteria used for determination of significant increase in credit risk
    iv. assumptions applied to calculate lifetime probability of default
    v. methods applied to calculate loss given default
    vi. methods applied to incorporate forward-looking information
- Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of individually assessed non-performing loans and receivables allocated to Stage 3, which included:
    i. Assessment of borrower's financial position and performance following latest credit reports and available information
    ii. Critical assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations taking into consideration borrower's financial status and performance
    iii. Reviewing and critically assessing estimated value of collateral and estimated realisation period
    iv. Critical assessment of discount rates used in the estimation of the expected cash flows from operations and/or collateral
    v. Re-performing calculation of expected credit losses by applying our own independent judgment and assumptions based on our industry experience on to calculation and comparing derived result of the impairment losses per certain sampled loans and receivables with the ones provided by the Bank.

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Other Information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. With respect to the Management Report which is included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Management Report includes required disclosures as set out in the Article 21 of the Accounting Act.

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

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

2) Management Report for the year 2018 has been prepared, in all material respects, in accordance with Article 21 of the Accounting Act.

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on Other Legal and Regulatory Requirements

We were appointed as the statutory auditor of the Bank by the shareholders on General Assembly Meeting held on 23 March 2018 to perform audit of accompanying financial statements. Our total uninterrupted engagement has lasted 5 years and covers period 1 January 2014 to 31 December 2018.

We confirm that:

- our audit opinion on the accompanying financial statements is consistent with the additional report issued to the Audit Committee of the Bank on 28 February 2019 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 2018:

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

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

Pursuant to the Decision of the Croatian National Bank on the Form and Content of the Bank Annual Financial Statements (Official Gazette No 62/08, hereinafter: "the Decision") the Bank's management has prepared the forms, as presented in the Appendix to these financial statements on pages 147 to 163, which comprise balance sheet as at 31 December 2018, income statement, statement of changes in equity and the statement of cash flow for the year then ended, together with reconciliation to the financial statements. These forms and the accompanying reconciliation to the financial information are the responsibility of the Bank's Management and, do not represent components of the financial statements prepared in accordance with statutory accounting requirements for banks in Croatia, which are set out on pages 24 to 146, but rather a requirement specified by the Decision. The financial information provided in those forms has been derived from the financial statements.

Branislav Vrtačnik

President of the Management Board

Vanja Vlak

Certified auditor

Deloitte d.o.o.

11 March 2019

Radnička cesta 80,

10 000 Zagreb,

Croatia

This version of the auditor's report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the auditor's report takes precedence over translation.

Statement of Profit or Loss

For the year ended 31 December 2018

	Note	Unaudited* 2018 in EUR million	Unaudited* 2017 in EUR million	2018 in HRK million	2017 in HRK million
Interest income	4	84.6	99.1	627.4	744.7
Interest expense	5	(22.2)	(35.1)	(164.9)	(264.1)
Net interest income		**62.4**	**64.0**	**462.5**	**480.6**
Fee and commission income	6	29.0	28.4	214.8	213.4
Fee and commission expense	7	(5.5)	(5.3)	(40.7)	(39.5)
Net fee and commission income		**23.5**	**23.1**	**174.1**	**173.9**
Net trading income	8	4.6	8.3	33.8	62.5
Net investment income	9	1.4	1.3	10.5	10.0
Net foreign exchange differences	10	0.5	(2.6)	3.6	(19.8)
Other operating income	11	4.1	7.0	30.3	52.8
Total operating income		**96.5**	**101.1**	**714.8**	**760.0**
Personnel expenses	12	(31.3)	(30.4)	(232.5)	(228.1)
Depreciation	22,23	(2.3)	(2.8)	(16.8)	(21.2)
Amortization	24	(1.3)	(1.1)	(9.9)	(8.0)
Other operating expenses	13	(31.9)	(30.0)	(236.6)	(225.2)
Total operating expenses		**(66.8)**	**(64.3)**	**(495.8)**	**(482.5)**
Net impairment loss on financial assets	14	(4.0)	(15.4)	(29.6)	(116.0)
Other impairment losses and provisions	15	(0.2)	(1.1)	(1.2)	(8.2)
Profit before tax		**25.5**	**20.3**	**188.2**	**153.3**
Income tax	16	(2.3)	10.2	(17.3)	76.4
Profit for the year		**23.2**	**30.5**	**170.9**	**229.7**

*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 30 to 146 form an integral part of these financial statements.

Statement of Other Comprehensive Income

For the year ended 31 December 2018

	Unaudited* 2018 in EUR million	Unaudited* 2017 in EUR million	2018 in HRK million	2017 in HRK million
Profit for the year	**23.2**	**30.5**	**170.9**	**229.7**
Items that will not be reclassified subsequently to profit or loss:				
Fixed assets	(0.1)	(1.0)	(1.1)	(6.5)
Non-current assets and disposal groups classified as held for sale	(0.2)	1.0	(1.5)	5.2
Movement in fair value of equity instruments at fair value through other comprehensive income	0.3	1.0	2.4	5.8
Income tax relating to items that will not be reclassified subsequently to profit or loss	-	-	-	(0.8)
Net other comprehensive income not be reclassified subsequently to profit or loss	**(0.0)**	**1.0**	**(0.2)**	**3.7**
Items that may be reclassified subsequently to profit or loss:				
Movement in fair value of debt instruments at fair value through other comprehensive income	(4.9)	6.0	(36.6)	46.7
Income tax relating to items that may be reclassified subsequently to profit or loss	0.9	(1.0)	6.6	(8.4)
Net other comprehensive income that may be reclassified subsequently to profit or loss	**(4.0)**	**5.0**	**(30.0)**	**38.3**
Total net other comprehensive income for the year	**(4.0)**	**6.0**	**(30.2)**	**42.0**
Total comprehensive income for the year	**19.2**	**36.5**	**140.7**	**271.7**
Attributable to equity holders of the Bank	19.2	36.5	140.7	271.7

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

Notes on pages 30 to 146 form an integral part of these financial statements.

Signed on behalf of Addiko Bank d.d. Zagreb on 27 February 2019:

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

Statement of Financial Position

As at 31 December 2018

	Note	Unaudited* 2018 in EUR million	Unaudited* 2017 in EUR million	2018 in HRK million	2017 in HRK million
Assets					
Cash and balances with Croatian National Bank	17	421.2	641.1	3,124.6	4,817.0
Trading assets	18	13.4	10.3	99.1	33.4
Derivative financial assets	37	0.8	1.0	5.7	7.3
Loans and receivables from banks	19	0.3	62.9	2.5	487.2
Loans and receivables from customers	20	1,358.3	1,392.3	10,075.6	10,446.6
Investment securities	21	621.1	637.8	4,607.2	4,836.6
Investment property	22	0.8	0.9	6.1	6.4
Property and equipment	23	27.4	27.1	203.2	203.9
Intangible assets	24	8.1	6.4	59.9	48.0
Non-current assets and disposal groups classified as held for sale	25	3.0	15.3	22.4	115.0
Deferred tax assets	16	13.7	14.9	101.7	112.3
Current tax assets	16	0.1	0.1	0.7	0.7
Other assets	26	9.8	11.4	71.7	84.7
Total assets		**2,478.0**	**2,821.5**	**18,380.4**	**21,199.1**

Notes on pages 30 to 146 form an integral part of these financial statements.

Statement of Financial Position (continued)

As at 31 December 2018

	Note	Unaudited* 2018 in EUR million	Unaudited* 2017 in EUR million	2018 in HRK million	2017 in HRK million
Liabilities					
Derivative financial liabilities	37	0.6	0.4	4.2	2.7
Current accounts and deposits from banks	27	24.0	12.5	178.3	93.6
Current accounts and deposits from customers	28	1,833.1	2,063.4	13,597.2	15,503.4
Borrowings	29	48.4	76.9	358.9	577.8
Subordinated debt	30	138.6	238.7	1,028.4	1,793.6
Provisions	31	17.7	24.1	131.0	180.9
Other liabilities	32	24.6	24.7	183.8	186.1
Total liabilities		**2,087.0**	**2,440.7**	**15,481.8**	**18,338.1**
Equity					
Share capital	33	345.0	340.6	2,558.9	2,558.9
Profit for the year		23.2	30.5	170.9	229.7
Retained earnings/(accumulated losses)		(0.8)	0.1	(6.0)	0.4
Reserves	34	23.6	9.6	174.8	72.0
Total equity		**391.0**	**380.8**	**2,898.6**	**2,861.0**
Total liabilities and equity		**2,478.0**	**2,821.5**	**18,380.4**	**21,199.1**
Commitments and contingent liabilities	35	328.0	256.0	2,433.3	1,923.2

*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 30 to 146 form an integral part of these financial statements.

Signed on behalf of Addiko Bank d.d. Zagreb on 27 February 2019:

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

Statement of Changes in Equity

For the year ended 31 December 2018

in HRK million

	Share capital	Share premium	Legal and other reserves	Revaluation reserve	Fair value reserve	Accumulated (losses)/ profit	Total
Balance at 1 January 2017	**4,993.0**	**59.8**	**125.8**	**16.4**	**8.4**	**(2,614.4)**	**2,589.0**
Profit for the year	-	-	-	-	-	229.7	229.7
Other comprehensive loss for the year, net of income tax	-	-	-	(1.1)	43.1	-	42.0
Total comprehensive income for the year	-	-	-	*(1.1)*	*43.1*	*229.7*	*271.7*
Distribution of profit for the year 2016:							
Legal reserves	-	-	3.0	-	-	(3.0)	-
Cover of losses from prior years	(2,434.1)	(59.8)	(123.5)	-	-	2,617.4	-
Other changes	-	-	-	-	-	0.3	0.3
Balance at 31 December 2017	**2,558.9**	**-**	**5.3**	**15.3**	**51.5**	**230.0**	**2,861.0**
Impact of adopting IFRS 9	-	-	-	-	-	(6.6)	(6.6)
Balance at 1 January 2018	**2,558.9**	**-**	**5.3**	**15.3**	**51.5**	**223.4**	**2,854.4**
Profit for the year	-	-	-	-	-	170.8	170.8
Other comprehensive loss for the year, net of income tax	-	-	-	(2.2)	(28.0)	-	(30.2)
Total comprehensive income for the year	-	-	-	*(2.2)*	*(28.0)*	*170.8*	*140.6*
Distribution of profit for the year 2017:							
Legal reserves	-	-	122.7	-	-	(122.7)	-
Other reserves	-	-	4.6	-	-	(4.6)	-
Dividend	-	-	-	-	-	(102.4)	(102.4)
Other changes	-	-	5.6	-	-	0.3	5.9
Balance at 31 December 2018	**2,558.9**	**-**	**138.2**	**13.1**	**23.5**	**164.8**	**2,898.5**

Notes on pages 30 to 146 form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2018

in HRK million

	Note	2018	2017
Cash flow from operating activities:			
Profit before tax		188.2	153.3
Adjustments:			
Impairment and provisions	14,15	30.7	130.3
Depreciation and amortization	22,23,24	26.7	29.3
Net unrealized loss/(gain) from financial assets and liabilities at fair value through profit or loss		1.1	(7.3)
Gain on disposal of fixed assets	11	(2.7)	(1.4)
Interest expense recognized in statement of profit or loss	5	164.9	264.1
Interest income recognized in statement of profit or loss	4	(627.4)	(744.7)
Other non-monetary items		(8.4)	(26.8)
Change in assets and liabilities from operating activities:			
Balances with Croatian National Bank		198.5	(53.7)
Deposits and loans with credit institutions		96.3	-
Loans and receivables to other customers		424.1	1,977.8
Securities and other financial instruments at fair value through other comprehensive income		146.9	(876.1)
Securities and other financial instruments held for trading		(64.1)	(0.7)
Non-trading securities and other financial assets mandatorily at fair value through profit or loss		11.7	(28.6)
Other assets from operating activities		23.2	(13.7)
Deposits from financial institutions		84.6	(21.9)
Transaction accounts of other customers		(88.9)	894.9
Demand deposits		1,399.2	1,023.2
Term deposits		(3,090.0)	(1,643.6)
Derivative financial liabilities and other trading liabilities		(0.2)	(0.1)
Other liabilities from operating activities		(43.2)	(85.2)
Interest received from operating activities		583.8	755.5
Dividends received from operating activities		0.1	0.1
Interest paid from operating activities		(217.8)	(313.4)
Income taxes paid		-	(0.5)
Net cash flow from operating activities		**(762.7)**	**1,410.8**
Cash flow from investing activities:			
Increase in tangible and intangible assets		(41.7)	(39.9)
Proceeds from sale of subsidiaries		-	17.8
Dividends received from investing activities		-	9.9
Net cash flow from investing activities		**(41.7)**	**(12.2)**
Cash flow from financing activities:			
Net decrease of borrowings from financing activities		(215.1)	(16.7)
Net decrease of subordinated debt		(738.5)	(0.1)
Dividend paid		(102.4)	-
Other proceeds from financing activities		5.2	-
Net cash flow from financing activities		**(1,050.8)**	**(16.8)**
Net (decrease)/increase in cash and cash equivalents		**(1,855.2)**	**1,381.8**
Cash and cash equivalents at the beginning of the year		**3,920.4**	**2,573.2**
Effects of exchange rate changes on cash and cash equivalents		(29.2)	(34.6)
Cash and cash equivalents at the end of the year	39	**2,036.0**	**3,920.4**

Notes on pages 30 to 146 form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2018

1. GENERAL INFORMATION ABOUT THE BANK

a) History and incorporation

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

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

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 2018 the operations were conducted through the Bank's head office located in Zagreb and through branches organized into regional centres Zagreb and Central Croatia, Dalmatia, Istria and Kvarner and Slavonia and Baranja.

b) Activity

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

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

1. GENERAL INFORMATION ABOUT THE BANK (CONTINUED)

c) Members of the Supervisory Board

The members of the Supervisory Board of the Bank during the year 2018 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 Resigned as at 29 May 2018
Ferenc Joó	Member	Appointed as at 11 October 2018

d) Members of the Management Board

The members of the Management Board of the Bank during the year 2018 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 (Stage 1 and Stage 2). For these items the regulations require that a credit institution performs collective assessment with future oriented model under IFRS 9 (expected losses). Different approaches are applied, depending on the stage a transaction is allocated to. Stage 1 requires the recognition of twelvemonth expected credit losses and if there is a significant increase in credit risk, the loss allowance must be increased up to the amount of the expected lifetime loss (stage 2). CNB regulation (“Decision classification of exposures into risk categories and the method of determining credit losses”) requires that these provisions shall not be less than 0.8% of the total exposure to items qualifying for such latent losses.

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

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

The following new standards, 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 reporting period:

- **IFRS 9 "Financial Instruments"** *adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),*
- **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),*
- **Amendments to IFRS 2 "Share-based Payment"** *- Classification and Measurement of Share-based Payment Transactions – adopted by the EU on 26 February 2018 (effective for annual periods beginning on or after 1 January 2018),*
- **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 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 IAS 40 "Investment Property"** *- Transfers of Investment Property – adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018),*
- **Amendments to IFRS 1 and IAS 28 due to "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 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),*
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** *– adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).*

The adoption of these new standards, amendments to the existing standards and interpretations has not led to any material changes, other than adoption of **IFRS 9 "Financial Instruments** and **IFRS 15 "Revenue from Contracts with Customers"**, for which the overview is given below.

IFRS 9 Financial Instruments

In July 2014, the IASB published the final version of **IFRS 9** Financial Instruments, which took effect on 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. As of 1 January 2018, the Bank has adopted this standard. Also, the amended IFRS 7 Financial instruments: Disclosures was adopted. This standard requires new disclosures of information on financial instruments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Classification and measurement

IFRS 9 establishes three principal classification categories for financial assets: measurement at amortized cost, fair value through other comprehensive income (FVTOCI) 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 models

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

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

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

Contractual cash flow characteristics

For the assessment whether contractual cash flows are solely payments of principal and interest, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest (“SPPI”), Addiko considered the contractual terms of the instrument and analysed 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 Bank’s claim to cash flows from specified assets and features that modify consideration for the time value of money.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Upon transition to IFRS 9 there were no financial instruments with interest mismatch features which would lead to the classification at FVTPL. Significant volumes of financial instruments with critical features are not expected due to the internal policy for new products which eliminates potentially SPPI non-compliant features.

Classification and measurement of Financial Assets and Financial Liabilities

Based on the 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"),

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

- a financial asset is measured at fair value through other comprehensive income (FVTOCI) if the asset is held in a business model in which assets are managed both in order to collect contractual cash flows 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.

The categories according to IAS 39 – “Held-to-maturity”, “Loans and receivables” and “Available-for-sale” - no longer exist.

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

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

Financial assets at amortised costs

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

Financial assets at fair value through other comprehensive income

A financial asset is classified and subsequently measured at fair value through other comprehensive income, if the financial asset is held in a hold to collect and sell business model and the contractual cash flows are SPPI compliant. Financial assets are measured at fair value with any movements being recognised in other comprehensive income and are assessed for impairment under the new expected credit loss (ECL) model.
Interest income is presented in the line "Net interest income". Impairment is presented in the line “Net impairment loss on financial assets”. The difference between fair value and amortised costs is presented in "Fair value reserve" in the statement of changes in equity. The changes in fair value during the reporting period for debt instruments are presented in the line “Movement in fair value of debt instruments at fair value through other comprehensive income” in the statement of other comprehensive income. Gains and losses from derecognition are presented in the line "Net investment income" in the statement of profit or loss.
For equity instruments that are not held for trading, entities can make an irrevocable election at initial recognition to classify the instruments at FVTOCI. This election is available for each separate investment. All subsequent changes in fair value are presented in the line “Fair value reserve - equity instruments” in the statement of other comprehensive income without recycling in the statement of profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Financial assets at fair value through profit or loss

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

- *Financial assets designated at fair value through profit or loss*
  At initial recognition, the Bank may irrevocably designate a financial asset that would otherwise be measured subsequently at amortised costs or FVTOCI, as measured at FVTPL, if such designation eliminates or significantly reduces a recognition and measurement inconsistency (i.e. "accounting mismatch") that would otherwise arise from measuring assets and liabilities or recognising the gains or losses on a different basis. Currently there is not such case in the Bank.
- *Financial assets mandatorily at fair value through profit or loss*
  Financial assets are classified in this category if their cash flows are not SPPI compliant or they are held as part of residual business models that are other than held for trading.

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

The classification and measurement requirements for financial liabilities only slightly changed compared to IAS 39.

The amendments to IFRS 9 "Prepayment features with negative compensation" issued in 2017 clarify the accounting for modification or exchange of financial liability measured at amortised cost that does not result in the derecognition. An entity recognises any adjustment to the amortised cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange. A retrospective change of the accounting treatment may therefore become necessary if in the past the effective interest rate was adjusted and not the amortised cost amount. It does not result in any changes and impact the Bank.

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

Implementation of IFRS 9 did not result in a significant change to Bank’s business model.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Impairment

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" (ECL) model.

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

Under IFRS 9, the lifetime ECL is the expected present value of losses that arise if borrowers' default on their obligations at some time during the complete maturity of the financial assets with simultaneous consideration of probabilities of default as well as credit losses (loss given default).

Overview ECL calculation

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

In determining the cash flows that the bank expects to receive, following the recommendation of the GPPC (Global Public Policy Committee), Addiko Bank is using a sum of marginal losses approach whereby ECLs are calculated as the sum of the marginal losses occurring in each time period from the reporting date. The marginal losses are derived from individual parameters that estimate exposures and losses in the case of default and the conditional probability of default for each period (the probability of a default in time period X conditional upon an exposure having survived to time period X). The (lifetime) ECL is calculated for different scenarios separately, considering current and future forward looking information. The aggregation to the final ECL is performed at the end by probability weighting of the different individual scenarios. Addiko calculates in total three outcomes: Base case, Optimistic case and Pessimistic case while occasionally also some more adverse scenarios are simulated to understand dynamics and potential portfolio risks (cf. chapter Forward-looking information).

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

The PD (probability of default) parameters reflects the probability of default within a certain period of time. The PDs used for the ECL calculation are derived by models/methodology which are developed by Bank internal model development unit. Generally, the models are based on Bank internal data and segment specific whenever possible and plausible. For certain parts of the portfolio (where no significant internal data is available), Group wide models are applied to reflect data availability and portfolio characteristics. In certain cases, also external data from rating agencies is applied for the same reason mentioned before. Methodological wise, an indirect modelling approach is chosen. This means that underlying existing Basel 3 methodology is used as a starting point and is adapted in a way to be fully IFRS 9 compliant. This includes the removal of any conservatism from the models, the inclusion of forward-looking point-in-time information within the methodology as well as the estimation of lifetime PD term structures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Significant increase in credit risk

The Bank measures ECL in three stages as the deterioration in credit quality takes place following the IFRS 9 standard. Namely, for stage 1 the 12-month expected credit loss is reported and for stage 2 and 3 the full lifetime expected credit loss is recognised.

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

When credit quality is deemed to deteriorate significantly assets move into stage 2, referring to Banks staging criteria (as described further below in more detail). At this point, the full lifetime ECL is applied, resulting in a significant increase in the provisions.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Qualitative staging criteria:

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

Further qualitative criteria around watchlist / early warning systems are reflected in the PD via the automatic downgrade of the client (as incorporated within the rating models). Hence no specific criterion was deemed necessary in this regard.

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

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

Forward-looking information

Under IFRS 9, Addiko Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. The Bank has identified and documented key drivers of credit risk for each portfolio of financial instruments incorporating historical data analysis and estimated relationships between macro-economic variables and credit risk. These key drivers used for the analyses include in addition to other important factors the following major indicators: unemployment rates, GDP growth rates, real estate prices, industrial production. All variables incorporated are at country and portfolio level whenever possible and plausible.

Forecast of these economic variables are provided by the Bank Economic Research department on a regular basis and provide an estimate view of the economy in ensuing years. The input data for the forecasts is collected from both internal and external data source. An extensive internal check and (if needed) adjustment is performed to make sure that forecasts reflect Addiko’s view on future outcomes. This includes also different future scenarios and their probabilities. These scenarios are the baseline economic scenario, the optimistic and pessimistic scenario forecast and probability weights for each of them. The forecasted parameters are consistently used for various bank internal processes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

The following table provides the baseline case, upside (optimistic) case and downside (pessimistic) case scenario forecasts for selected forward-looking information variables used to estimate YE 2018 ECL. The amounts shown rep-resent the average value of the macroeconomic variables over the next 12 months and the remaining 2-year fore-cast period for the baseline case, as well as average values of the entire projection horizon (3-year) for the optimistic and pessimistic cases.

	Baseline case		Optimistic case	Pessimistic case
	Next 12 months[1]	Remaining 2-year period[1]	3-year Period[1]	3-year Period[1]
Real GDP (constant prices YoY, %)				
Croatia	3.0	2.7	3.7	1.1
Unemployment Rate (ILO, average %)				
Croatia	9.0	8.3	7.4	10.4
Real-Estate (% of change)				
Croatia	3.7	2.5	3.5	1.0
CPI Inflation (average % YoY)				
Croatia	1.8	1.8	2.2	1.2

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

Validation

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

The Bank distinguishes between an initial and an ongoing validation:

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

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

The validation is performed by an independent internal unit which deliver reports to local and Addiko Group senior management.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Write-offs

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

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

In addition to the general derecognition criteria (see chapter "Derecognition and contract modification") the following specific criteria fulfilment would lead to the derecognition of financial assets:

- Unsecured financial asset if the debtor is already undergoing bankruptcy proceedings;
- Unsecured financial asset if no repayment occurred within the period of one year on observed financial asset;
- Secured financial asset if no repayment occurred within the defined period, depending on the type of collateral;
- Financial assets which have been subject to restructuring three or more times and the bank assessed the debtor as not able to repay their obligations;
- Financial asset for which the bank´s right to claim repayment from the debtor in judicial or other proceedings has been terminated by approval of compulsory settlement;
- Other triggers were defined for financial assets that are treated as non-recoverable.

Derecognition and contract modification

IFRS 9 incorporates the requirements of IAS 39 for the derecognition of financial assets and financial liabilities without substantive amendments. There was only immaterial impact for the Bank from adopting these new requirements.

A financial asset is derecognised when:

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

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

Significant modifications leading to derecognition of financial assets

If the contractual cash flows of a financial asset are modified or renegotiated substantially, it results in derecognition (due to expiry of contractual rights to the cash flows) of that financial asset under IFRS 9 Financial Instruments. A new financial asset with modified terms is recognised and the difference between the amortised cost of derecognised financial asset and the fair value of the new financial asset is reported in the profit or loss statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

If the borrower is in default or the significant modification leads to default, then the new asset will be treated as purchased or originated credit-impaired (POCI). For POCI financial assets no loss allowances are recognised and lifetime ECLs are reflected in the credit adjusted effective interest rate at initial recognition. If the borrower is not in default or the significant modification does not lead to default, then the new asset will be classified in Stage 1.

If the derecognition criteria are applied to borrowers facing financial difficulties, classified in Stage 3, then the change in expected cash flows is assessed rather than contractual cash flows. The revised terms of the contract might reflect the borrower's ability to repay the original cash flows, as already reflected in the entity's impairment assessment.

The following main criteria result in significant modifications:

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

Insignificant modifications not leading to derecognition of financial assets

If the contractual cash flows of financial asset are modified or renegotiated in such a way that does not result in derecognition of that financial asset under IFRS 9 Financial Instruments, entities should recalculate the gross carrying amount of the financial asset on the basis of the renegotiated or modified contractual cash flows using initial effective interest rate for discounting. A modification gain or loss would be recognised in profit or loss.

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

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 80.0% to 125.0%), qualitative and quantitative criteria for a forward-looking effectiveness assessment were introduced. Furthermore, voluntary terminations of hedge relationships are allowed, but only if certain requirements are met. Rules for rebalancing were introduced for hedging relationships in which the 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.

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, the Bank continues to apply the existing hedge accounting model in IAS 39 without any major impacts on the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Impact on capital

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 Bank has decided to adopt the second approach.

Transition

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

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

The new structure of the statement of financial position, statement of comprehensive income and relevant items in the Notes reflect the new accounting categories in accordance with IFRS 9. The comparative period columns in the 2018 financial statements reflect the structure used in 2017 financial statements. The comparative period information and disclosures in the Notes are based on the original classification and measurement requirements of IAS 39 (as superseded by IFRS 9) and IFRS 7 (before amendments resulting from IFRS 9).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Disclosure of financial impact of IFRS 9

Changes between measurement categories and carrying amounts of financial assets and financial liabilities under IAS 39 and IFRS 9 as at 1 January 2018:

in HRK million

	Measurement category IAS 39	Carrying amount	Measurement category IFRS 9	Carrying amount
Financial assets				
Cash and balances with Croatian National Bank	Amortized cost (Loans and receivables)	4,470.2	Amortized cost	4,479.5
Loans and receivables from banks	Amortized cost (Loans and receivables)	487.2	Amortized cost	483.7
Loans and receivables from customers	Amortized cost (Loans and receivables)	10,446.6	Amortized cost	10,435.2
Investment securities	Fair value through other comprehensive income (available for sale)	4,836.6		-
			Fair value through other comprehensive income – debt securities	4,678.4
			Fair value through other comprehensive income (option) – equity securities	23.4
			Non-trading financial assets mandatorily at fair value through profit or loss	131.8
Trading assets	Fair value through profit or loss (held for trading)	33.4	Fair value through profit or loss (held for trading)	33.4
Derivative financial assets	Fair value through profit or loss	7.3	Fair value through profit or loss	7.3
Total financial assets		**20,281.3**		**20,272.7**
Financial liabilities		-		-
Current accounts and deposits from banks	Amortized cost	93.6	Amortized cost	93.6
Current accounts and deposits from customers	Amortized cost	15,503.4	Amortized cost	15,503.4
Borrowings	Amortized cost	577.8	Amortized cost	577.8
Subordinated debt	Amortized cost	1,793.6	Amortized cost	1,793.6
Derivative financial liabilities	Fair value through profit or loss	2.7	Fair value through profit or loss	2.7
Total financial liabilities		**17,971.1**		**17,971.1**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Reconciliation of carrying amounts of financial assets based on measurement categories as at 1 January 2018:

in HRK million

	Carrying amount IAS 39 1 January 2018	Reclassification	Remeasurement	Carrying amount IFRS 9 1 January 2018
Financial assets at amortized cost				
Cash and balances with Croatian National Bank	4,470.2	-	9.3	4,479.5
Loans and receivables from banks	487.2	-	(3.5)	483.7
Loans and receivables from customers	10,446.6	-	(11.4)	10,435.2
Total financial assets at amortized cost	**15,404.0**	**-**	**(5.6)**	**15,398.4**
Financial assets available for sale	**4,836.6**	**(4,836.6)**	**-**	**-**
Financial assets at fair value through other comprehensive income	**-**	**-**	**-**	**-**
Fair value through other comprehensive income – debt securities	-	4,681.4	(3.0)	4,678.4
Fair value through other comprehensive income (option) – equity securities	-	23.4	-	23.4
Total financial assets at fair value through other comprehensive income	**-**	**4,704.8**	**(3.0)**	**4,701.8**
Non-trading financial assets mandatorily at fair value through profit or loss	**-**	**131.8**	**-**	**131.8**
Total financial assets	**20,240.6**	**-**	**(8.6)**	**20,232.0**
Fair value reserve	**-**	**-**	**-**	**-**
Reclassification of financial assets available for sale to non-trading financial assets mandatorily at fair value through profit or loss	(62.8)	1.5	-	(61.3)
Total fair value reserve	**(62.8)**	**1.5**	**-**	**(61.3)**
Provisions for commitments and contingent liabilities	-	-	0.5	0.5
Total impact of adopting IFRS 9 on equity	**-**	**1.5**	**(8.1)**	**(6.6)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Reconciliation of credit loss allowances as at 1 January 2018:

in HRK million

	Carrying amount IAS 39/IAS 37 1 January 2018	Suspended interest recognition	Remeasurement	Carrying amount IFRS 9 1 January 2018
Cash and balances with Croatian National Bank	(14.5)	-	9.3	(5.2)
Loans and receivables from banks	(2.0)	-	(3.5)	(5.5)
Loans and receivables from customers	(1,164.6)	(98.0)	(11.4)	(1,274.0)
Financial assets available for sale (IAS 39) /Financial assets at fair value through profit or loss (IFRS 9)	-	-	(3.0)	(3.0)
Off-balance sheet exposures	(24.0)	-	0.5	(23.5)
Total	**(1,205.1)**	**(98.0)**	**(8.1)**	**(1,311.2)**

The column "Suspended interest recognition" relates to changes in credit loss allowances due to the increase of gross carrying amounts of financial assets. Suspended interest (accrued off-balance for loans which were defaulted up to 31 December 2017) was recognised for credit impaired loans (Stage 3) and fully impaired at the same time with no effect on equity.

IFRS 15 Revenue from Contracts with Customers

The new IFRS 15 “Revenue from Contracts with Customers” specifies when and at which amount an IFRS reporter has to recognise revenue. Under the core principle of this model, a company is to recognise revenue when the contractual obligation has been fulfilled, i.e. the control over the goods and services has been transferred. In doing so, revenue is to be recognised at the amount an entity expects to be entitled to as a consideration. IFRS 15 does not apply to the following types of contracts:

- Leases within the scope of IAS 17,
- Insurance contracts within the scope of IFRS 4,
- Financial instruments and other contractual rights or obligations within the scope of IFRS 9 “Financial Instruments”, IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements”, IAS 27 “Separate Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”, and
- Non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

Consequently, interest income as well as dividend income are no longer within the scope of the revenue recognition standard. They become subject to IFRS 9 Financial instruments and IAS 39 Financial Instruments: Recognition and Measurement. Since the Bank primarily generates revenue from financial instruments which are excluded from the scope of IFRS 15, this standard does not result in any significant changes within the Bank. The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Bank. IFRS 15 replaces the current revenue recognition provisions of IAS 11, IAS 18 and the related interpretations. The standard is effective for financial years beginning on or after 1 January 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 16 "Leases"** *– adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),*
- **Amendments to IFRS 9 "Financial Instruments"** - *Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),*
- **IFRIC 23 "Uncertainty over Income Tax Treatments**" *– adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).*

The Bank anticipates 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 in the period of the initial application. However, since IFRS 16 "Leases" will cause changes in presentation of financial statements, overview of the standard is given below.

The standard **IFRS 16** "Leases" specifies the basic principles regarding recognition, presentation and disclosure of lease contracts for both contractual parties, i.e. the lessee and the lessor. The central idea of this new standard is that the lessee generally recognises all leases and the respective rights and obligations in the statement of financial position. The main objective of IFRS 16 is thus to avoid a presentation of leases off the statement of financial position. Under IFRS 16, leases are no longer classified as either "operating" or "finance". Instead, a right-of-use asset and a lease liability are recognised for all leases henceforth. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle, remove or restore the underlying asset, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Addiko Group´s incremental borrowing rate. The only exception is for leases with a total lease term of 12 months or less, as well as for leases of low value, with the IASB considering a lease to be of low value if it is USD 5,000 or less. In such cases it will be possible to continue a recognition off the statement of financial position.

The Bank has completed an initial assessment of the potential impact on its financial statements including an assessment of whether it will exercise any lease renewal options and the extent to which the Bank chooses to use practical expedients and recognition exemptions. Mainly land and buildings are subject to lease at the Addiko Bank. Generally, the Addiko Group uses its incremental borrowing rate as the discount rate.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Based on available information, as of initial application date of IFRS 16, the Bank expects only a minor impact from the implementation of this new standard, with no effect in the opening retained earnings and a total capital impact of -16 basis points due to an increase of the total assets in the amount of approximately HRK 68.9 million and an increase of lease liabilities in the amount of approximately HRK 74.7 million.

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 3 "Business Combinations"** - *Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period).*
- **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 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - *Definition of Material (effective for annual periods beginning on or after 1 January 2020),*
- **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 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),*
- **Amendments to References to the Conceptual Framework in IFRS Standards** *(effective for annual periods beginning on or after 1 January 2020).*

The Bank anticipates 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 in the period of initial application.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2018 to 31 December 2018 in compliance with the statutory accounting requirements for banks in Croatia.

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

The financial statements for the year ended 31 December 2018 have been prepared under the historical cost convention except for financial assets and liabilities at fair value in accordance with IFRS 9 *"Financial Instruments"* and revalued non-current assets. The accounting policies have been consistently applied, except where disclosed otherwise.

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) 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 2018, the Bank has made certain reclassifications. In order to ensure consistency in preparation and alignment to new 2018 classification, comparatives for the year 2017 were reclassified as presented in the tables bellow:

in HRK million

	2017 As previously reported	2017 Reclassifications	2017 As reclassified
Interest income	744.7	-	744.7
Interest expense	(264.1)	-	(264.1)
Net interest income	**480.6**	**-**	**480.6**
Fee and commission income	213.4	-	213.4
Fee and commission expense	(38.0)	(1.5)	(39.5)
Net fee and commission income	**175.4**	**(1.5)**	**173.9**
Net trading income	72.5	(10.0)	62.5
Net investment income	-	10.0	10.0
Net foreign exchange differences	(19.8)	-	(19.8)
Other operating income	52.8	-	52.8
Total operating income	**761.5**	**(1.5)**	**760.0**
Personnel expenses	(228.1)	-	(228.1)
Depreciation	(21.2)	-	(21.2)
Amortization	(8.0)	-	(8.0)
Other operating expenses	(233.7)	8.5	(225.2)
Total operating expenses	**(491.0)**	**8.5**	**(482.5)**
Impairment losses	(111.9)	111.9	-
Result on conversion of CHF loans	(5.3)	5.3	-
Net impairment loss on financial assets	-	(116.0)	(116.0)
Other impairment losses and provisions	-	(8.2)	(8.2)
Profit before tax	**153.3**	**-**	**153.3**
Income tax	76.4	-	76.4
Profit for the year	**229.7**	**-**	**229.7**

Explanation of reclassifications in Profit and loss statement for the year 2017:

- Certain card processing expenses in the amount of HRK 3.7 million were reclassified from the position "Other operating expenses" to the position "Fee and commission expense". Regulatory supervision expenses in the amount of HRK 2.2 million were reclassified from the position "Fee and commission expense" to the position "Other operating expenses".;
- Net realized gains from financial assets at fair value through other comprehensive income in the amount of HRK 10.0 million were reclassified from the position "Net trading gain" to the position "Net investment income";

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Basis of preparation (continued)

- Provisions for liabilities and charges in the amount of HRK 6.9 million were reclassified from the position “Other operating expenses” to the position “Other impairment losses and provisions”;
- Impairment losses of financial assets in the amount of HRK 116.0 million were reclassified from the position “Impairment losses” to the position “Net impairment loss on financial assets”. Impairment losses of non-financial assets and off-balance sheet items in the amount of HRK -4.1 million were reclassified from the position “Impairment losses” to the position “Other impairment losses and provisions”;
- Net losses on conversion of CHF loans in the amount of HRK 5.3 million were reclassified from the position “Result on conversion of CHF loans” to the position “Other impairment losses and provisions”.

in HRK million

	2017 As previously reported	2017 Reclassifications	2017 As reclassified
Assets			
Cash and balances with Croatian National Bank	4,817.0	-	4,817.0
Trading assets	33.4	-	33.4
Derivative financial assets	7.0	0.3	7.3
Loans and receivables from banks	472.9	14.3	487.2
Loans and receivables from customers	10,401.4	45.2	10,446.6
Available for sale financial assets	4,836.6	(4,836.6)	-
Investment securities	-	4,836.6	4,836.6
Investment property	6.4	-	6.4
Property and equipment	203.9	-	203.9
Intangible assets	48.0	-	48.0
Non-current assets and disposal groups classified as held for sale	115.0	-	115.0
Assets acquired in lieu of uncollected receivables	10.4	(10.4)	-
Deferred tax assets	112.3	-	112.3
Current tax assets	0.7	-	0.7
Other assets	65.5	19.2	84.7
Total assets	**21,130.5**	**68.6**	**21,199.1**
Liabilities			
Derivative financial liabilities	1.2	1.5	2.7
Due to other banks	517.7	(517.7)	-
Due to customers	15,657.2	(15,657.2)	-
Current accounts and deposits from banks	-	93.6	93.6
Current accounts and deposits from customers	-	15,503.4	15,503.4
Borrowings	-	577.8	577.8
Subordinated debt	1,793.6	-	1,793.6
Provisions	174.1	6.8	180.9
Provision for losses on conversion of CHF loans	6.8	(6.8)	-
Other liabilities	118.9	67.2	186.1
Total liabilities	**18,269.5**	**68.6**	**18,338.1**
Equity			
Share capital	2,558.9	-	2,558.9
Profit for the year	229.7	-	229.7
Retained earnings/(accumulated losses)	0.4	-	0.4
Reserves	72.0	-	72.0
Total equity	**2,861.0**	**-**	**2,861.0**
Total liabilities and equity	**21,130.5**	**68.6**	**21,199.1**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Basis of preparation (continued)

Explanation of reclassifications in Statement of financial position for the year 2017:

- Receivables for interest based on derivative financial instruments in the amount of HRK 0.3 million were reclassified from the position "Other assets" to the position "Derivative financial assets";
- Other receivables from banks in the amount of HRK 14.3 million were reclassified from the position "Loans and receivables from customers" to the position "Loans and receivables from banks";
- Early repayments of loans in the amount of HRK 59.4 million are reclassified from the position "Loans and receivables from customers" to the position "Other liabilities";
- Available for sale financial assets in the amount of HRK 4,836.6 million are reclassified from the position "Available for sale financial assets" to the position "Investment securities";
- Assets acquired in lieu of uncollected receivables in the amount of HRK 10.4 million are reclassified from the position "Assets acquired in lieu of uncollected receivables" to the position "Other assets";
- Receivables for settlement of card transactions, previously netted with liabilities for settlement of card transactions, in the amount of HRK 7.8 million were reclassified from the position "Other liabilities" to the position "Other assets";
- Payables for interest based on derivative financial instruments in the amount of HRK 1.5 million were reclassified from the position "Other liabilities" to the position "Derivative financial liabilities";
- Due to other banks in the amount of HRK 93.6 million were reclassified from the position "Due to other banks" to the position "Current accounts and deposits from banks" and the amount of HRK 424.0 million to the position "Borrowings";
- Due to customers in the amount of HRK 15,503.4 million were reclassified from the position "Due to customers" to the position "Current accounts and deposits from customers" and the amount of HRK 153.8 million to the position "Borrowings";
- Provision for losses on conversion of CHF loans in the amount of HRK 6.8 million were reclassified from the position "Provision for losses on conversion of CHF loans" to the position "Provisions".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Interest income and expense

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

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

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

e) Fee and commission income and expense

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

f) Retirement benefit costs

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

g) Foreign currency transactions

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Foreign currency transactions (continued)

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

31 December 2018	1 EUR = HRK 7.417575	1 USD = HRK 6.469192	1 CHF = HRK 6.588129
31 December 2017	1 EUR = HRK 7.513648	1 USD = HRK 6.269733	1 CHF = HRK 6.431816

h) Financial instruments

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

Classification and measurement of financial assets

Financial asset is initially measured at fair value increased or decreased for transaction costs that can be attributed directly to the acquisition or issue of a financial asset, except for FVTPL financial instruments, for which transaction costs are recognised directly in the statement of profit or loss. The fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received.

After initial recognition, financial asset is, depending on the selected business model of financial assets management and cash flow characteristics, classified into three categories:

1) Assets subsequently measured at amortized cost,
2) Assets subsequently measured at fair value through other comprehensive income (recycled or non-cycled to profit or loss), and
3) Assets subsequently measured at fair value through profit or loss.

Business model refers to the method of joint management of a group of financial assets as a whole in order to achieve a particular business objective and defines the way in which it is expected that financial assets generate cash flows.

Test of characteristics of contractual cash flows (Solely payments of principal and interest, so-called "SPPI test") is carried out in order to determine whether the interest on the outstanding principal reflects the compensation for the time value of money, credit risk and other basic borrowing risks, the cost of lending and profit margins.

Assets subsequently measured at amortized cost are financial assets that meet the following conditions:

a) is held within a business model whose purpose is to hold a financial asset for the purpose of collecting contractual cash flows and
b) based on the contractual terms of the financial asset, cash flows are generated, which are solely the payment of principal and interest on the outstanding principal amount.

Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, increased or decreased by cumulative depreciation using the effective interest rate method, all differences between the initial amount and the amount at maturity date, adjusted for all impairment losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial instruments (continued)

Interest income is calculated using the effective interest method applied to the gross carrying amount of the asset (amortized cost before adjusting for impairment), with the exception of the following:

(a) purchased or originated credit-impaired financial assets (POCI) where an effective interest rate adjusted for credit risk is applied to the amortized cost of initial recognition; and

(b) financial assets that were not purchased or originated credit-impaired financial assets (POCI) but subsequently became financial assets adjusted for credit losses for which the effective interest rate is applied in the following reporting periods to the amortized cost.

An effective interest rate is the rate that accurately discounts estimated future cash payments or cash inflows over the expected life of the financial asset to gross carrying amount of financial assets.

The effective interest rate adjusted for credit risk is the rate that accurately discounts the estimated future cash payments or cash receipts during the expected life of the financial asset to the amortized cost of the financial asset that was purchased or originated credit-impaired financial assets.

Debt instruments are measured at fair value through other comprehensive income, with recycling in profit or loss if they meet the following conditions:

a) are held within the scope of the business model whose objective is achieved by collecting contracted cash flows and selling of financial assets; and

b) based on the contractual terms of the financial asset, cash flows are generated, which are only the payment of principal and interest on the outstanding principal amount.

Gains or losses on financial assets measured at fair value through other comprehensive income are recognized in other comprehensive income, with the exception of the gain or loss on the impairment and the gains or losses on foreign exchange differences that are recognized in the income statement, until the date of derecognition of a financial asset or its reclassification. On derecognition of financial assets cumulative gains or losses previously recognized in other comprehensive income are reclassified from equity to profit or loss. Interest calculated using the effective interest method are recognized in the profit or loss statement.

If, at the initial recognition of equity instruments, the irrevocable option to recognize fair value changes through other comprehensive income is elected, for such instrument, at the derecognition, other comprehensive income is not recycled to profit or loss. For such instruments only dividends are recognized in the profit or loss statement.

Assets subsequently measured at fair value through profit or loss are assets that do not qualify for measurement at amortized cost or at fair value through other comprehensive income:

- "other business models",
- does not meet the criteria for the generation of cash flows that are only the payment of principal and interest on the outstanding principal amount,
- determination at initial recognition that financial assets are measured at fair value through profit or loss,
- equity instruments (unless irrevocable options for measurement at fair value through other comprehensive income is elected),
- derivative instruments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial instruments (continued)

Financial assets measured at fair value through profit or loss include the following sub-groups:

1) financial assets held for trading,

2) financial assets that are designated at initial recognition to be measured at fair value through profit or loss, and

3) financial assets that are mandatory measured at fair value through profit or loss.

Financial assets held for trading consist of items for which the following applies:

a) assets acquired or incurred mainly for the purpose of selling or repurchasing in the short term,

b) at initial recognition, it is part of a portfolio of financial instruments that are managed jointly and for which there is evidence of a recent short-term realized gain, or

c) it is a derivative instrument (other than a derivative instrument that is a financial guarantee contract or a specific and actual hedging instrument).

At the initial recognition it can be irrevocably decided that a financial asset is measured at fair value through profit or loss (fair value option) if this eliminates or significantly reduces the measurement or recognition inconsistency (so-called "accounting mismatch") that would otherwise arise for measuring assets or recognizing gains and losses associated with that asset on various grounds.

Financial assets that are mandatory measured at fair value through profit or loss are financial assets that do not meet the requirement that the related cash flows consist only of payment of principal and interest on the outstanding principal amount.

Gains or losses on financial assets measured at fair value are recognized in the income statement except in the following cases:

a) in the case of an investment in the equity instrument and if the option to present the profit or loss from that investment to other comprehensive income is elected,

b) if the financial asset is measured at fair value through other comprehensive income

Dividends are recognized in the statement of profit or loss only in the following cases:

a) if the right of the entity on the payment of dividends is determined,

b) if the entity is likely to realize the economic benefits associated with the dividend and

c) if the amount of the dividend can be measured reliably.

In the event of a change in a business model for managing of financial assets, the reclassification of financial assets into the different category is carried out. The reclassification is carried out prospectively, from the date of reclassification, i.e. from the first day of the next accounting period, not adjusting the previously recognized profit, loss or interest.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Standards used for comparative periods

Until 31 December 2017 IAS 39 Financial instruments: recognition and measurement was the applicable standard for Financial instruments. On the 1 January 2018 it was superseded by IFRS 9 Financial instruments. As IFRS 9 is not applied retrospectively the comparative period is still under the regime of IAS 39.

In accordance with IAS 39, all financial assets and liabilities must be recognised in the statement of financial position. Financial instruments are recognised at fair value at the time of acquisition (usually at cost). Financial assets or liabilities that are not measured at fair value through profit or loss also include transaction costs directly attributable to the acquisition of an asset or the issue of a liability. The addition and disposal of derivatives and financial instruments that mature within a term customary in the market (regular way contracts) are recognised by the Bank at the trade date.

Financial assets are eliminated from the statement of financial position when the contractual rights to the cash flows are lost or when the transition criteria of IAS 39 are met. Financial liabilities are derecognised when they have been repaid or have expired.

For subsequent measurement, all financial assets have to be assigned to one of the four measurement categories according to IAS 39:

- Financial assets at fair value through profit or loss
    a. Financial assets held for trading
    b. Financial instruments designated at fair value through profit or loss
- Held-to-maturity investments
- Loans and receivables
- Available-for-sale financial assets

Financial liabilities are divided into the following categories in accordance with IAS 39:

- Financial liabilities at fair value through profit or loss
    a. Financial liabilities held for trading
    b. Financial liabilities designated at fair value through profit or loss
- Other liabilities

Financial Assets at Fair Value through Profit or Loss

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 income”. Interest earned whilst holding these instruments is reported as “Interest income”.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Standards used for comparative periods (continued)

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.

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 Bank 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 Bank 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Standards used for comparative periods (continued)

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.

j) Recognition and de-recognition of financial assets

Purchases and sales of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income are recognized on the trade date, which is the date when the financial instrument is delivered to or transferred.

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

The Bank 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 Bank neither transfers nor retains substantially all the risks and rewards of ownership but it does not retain control of the financial asset.

If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Derivative financial instruments

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

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

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

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:

	2018	2017
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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Property, plant and equipment (continued)

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 B 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 (2017: 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 (2017: 4 to 10 years).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

p) Leases

Leases of assets in terms of which the Bank 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 Bank 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 Bank 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 Bank retains substantially all the risks and rewards of ownership.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

r) Provisions for liabilities and charges

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

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

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

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

s) Commitments and contingent liabilities

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

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

t) Taxation

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t) Taxation (continued)

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

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

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

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

3. ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated, and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in the existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Bank's credit risk portfolio and, as part of this, the estimation of the fair value of real estate collateral represents the major source of estimation uncertainty. This and other key sources of estimation uncertainty, that have a significant risk of causing a possible material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

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

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

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

Financial assets carried at amortized cost

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

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

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

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

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

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

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

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

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

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

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

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

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

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

For the part of the non-performing portfolio where the exposure at default (EAD) on group of borrower's levels is below a EUR 150 thousand, the calculation of provisions for impairment losses is performed as a collective assessment (rule-based approach). The provision amount is calculated as product of EAD and loss given default (LGD), where LGD is based on relevant characteristics such as time in default, risk segment and product.

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

The positive development of the risk provisions (releases) is mainly due to effects resulting from some medium and large non-performing clients within the Corporate segment, to successful debt sales, restructuring measures, as well as refinancing by other banks, as well as to settlement agreements and debt sales within the Retail Segment. This resulted in a reduced NPE portfolio in 2018, and the release of risk provisions at the same time.

Besides the mentioned debt sale and settlement agreements, the release of the holding period of CHF converted loans in resulted in further risk provision releases primarily within the Retail segment. Further positive effects were achieved by collection and recovery process improvements.

b) Classification of lease contracts

The Bank acts as a lessor in operating and finance leases. Where the Bank, 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 Bank considers the requirements of IAS 17 Leases.

c) Fair value of financial instruments

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

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

c) Fair value of financial instruments (continued)

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

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

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

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

Fixed Income Securities

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

OTC Derivatives

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

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

Equity Instruments

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

Investment Funds

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

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

d) Taxation

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

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

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

e) Regulatory requirements

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

f) Litigation and claims

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

g) Provisions for liabilities and charges

The Bank makes an individual assessment of present legal or constructive obligation that can result from past events and recognizes the provision when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

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

h) Provisions for employee benefits

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

i) Fair value of land and buildings

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

4. INTEREST INCOME

a) By source

in HRK million

	2018	2017
Individuals	373.0	404.5
Private companies and sole traders	162.7	200.5
State and public sector	71.4	118.4
Banks and other financial institutions	20.2	20.4
Other	0.1	0.9
Total	**627.4**	**744.7**

b) By class of financial instrument

in HRK million

	2018	2017
Loans and receivables	550.7	680.1
Debt securities	63.6	55.0
Placements with and loans to other banks	6.2	2.5
Derivative financial instruments	5.3	5.9
Reverse repo agreements	1.2	0.7
Other	0.4	0.5
Total	**627.4**	**744.7**

5. INTEREST EXPENSE

a) By recipient

in HRK million

	2018	2017
Individuals	71.3	128.1
Banks and other financial institutions	87.3	124.5
Private companies and sole traders	5.6	10.1
State and public sector	0.6	0.9
Other	0.1	0.5
Total	**164.9**	**264.1**

b) By class of financial instrument

in HRK million

	2018	2017
Current accounts and deposits from customers	79.5	146.0
Subordinated debt	65.1	97.9
Borrowings	7.9	10.9
Derivative financial instruments	6.1	3.8
Current accounts and deposits from banks	2.1	1.7
Other liabilities	4.2	3.8
Total	**164.9**	**264.1**

6. FEE AND COMMISSION INCOME

in HRK million

	2018	2017
Payment transactions	77.0	79.6
Credit cards	50.0	50.1
Customer services	47.4	43.5
Custody	15.3	15.2
Guarantees and letters of credit	8.2	8.6
Loans to customers	4.2	4.6
Other	12.7	11.8
Total	**214.8**	**213.4**

7. FEE AND COMMISSION EXPENSE

in HRK million

	2018	2017
Credit cards	13.8	11.5
Payment transactions	13.9	15.0
Banks' charges	5.8	5.7
Other	7.2	7.3
Total	**40.7**	**39.5**

8. NET TRADING INCOME

in HRK million

	2018	2017
Net gain from trading in foreign currencies	45.8	49.2
Net unrealized gains from financial assets held for trading, excluding derivatives	0.4	0.3
Net realized gains from financial assets held for trading, excluding derivatives	-	0.5
Net (loss)/gain from trading in derivatives	(12.4)	12.5
Total	**33.8**	**62.5**

The net trading gain in 2018 amounted to HRK 33.8 million. The main driver of the positive result was prudent management of Bank's open FX position and improvement of client related business. The above stated result has to be monitored in combination with net investment income contained in Note 9, in amount of HRK 10.5 million and the gain in position Net FX differences, contained in Note 10, in amount of HRK 3.6 million (2017: loss in the amount of HRK 19.8 million), producing the total trading result of HRK 47.9 million (2017: HRK 52.7 million). Main reason in decrease of total trading result is reduction of volatility on our main trading currency couple, EURHRK. Named volatility reduction is in line with Republic of Croatia approach to European Monetary Union and expected adoption of ERM2 mechanism.

9. NET INVESTMENT INCOME

in HRK million

	2018	2017
Gains on derecognition of financial assets at fair value through other comprehensive income	10.4	10.0
Net realized gains on financial assets mandatory through profit or loss	0.1	-
Total	**10.5**	**10.0**

Net investment income shows slight increase from HRK 10.0 million in year 2017 to HRK 10.4 million in year 2018 as a result of bonds portfolio measured at fair value through other comprehensive income restructuring.

10. NET FOREIGN EXCHANGE DIFFERENCES

in HRK million

	2018	2017
Net gains/(losses) from translation of monetary assets and liabilities:		
"Foreign currency clause" assets and liabilities	(48.9)	(63.7)
Foreign currency assets and liabilities	52.5	43.9
Total	**3.6**	**(19.8)**

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

Bank does not have fully matched currency structure of its assets and liabilities. The result is dependent on the movement of underlying FX rates throughout the year. As a result Bank has recorded net gain from revaluation of its assets and liabilities in 2018 in amount of HRK 3.6 million. In year 2017, in named position, loss in the amount of HRK 19.8 million has been recorded.

11. OTHER OPERATING INCOME

in HRK million

	2018	2017
Income from services to Addiko Group members	11.4	13.4
Income from cards business	6.2	7.1
Income from sales of property and assets held for sale	2.8	14.6
Rental income	1.7	2.0
Income from dividends	0.1	10.0
Other income	8.1	5.7
Total	**30.3**	**52.8**

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

12. PERSONNEL EXPENSES

in HRK million

	2018	2017
Net salaries	118.8	120.7
Pension insurance expenses	33.5	33.6
Contributions on salaries	29.4	30.0
Tax and surtax expenses	23.2	22.9
Other personnel expenses	4.9	2.3
Charging of provisions for employee benefits	22.7	18.6
Total	**232.5**	**228.1**

As at 31 December 2018 and 2017, the Bank had 1,107 and 1,130 employees, respectively.

13. OTHER OPERATING EXPENSES

in HRK million

	2018	2017
Material expenses and services	120.0	117.1
Rental and lease charges	27.9	31.5
Saving deposits insurance premium	24.1	25.7
Marketing expenses	22.2	20.9
Other taxes and contributions	12.0	10.8
Write-offs of non-financial assets	7.9	-
Other expenses	22.5	19.2
Total	**236.6**	**225.2**

With a continued focus on process optimization and establishing a lean, efficient, agile and integrated organization, a further consolidation of the existing IT applications and landscape was conducted during 2018.

Taking into consideration additional investments performed to grow the business and enhance the digital capabilities of the Bank (reflected in material expenses and services, marketing and other expenses) and HRK 7.9 million write-off of other IT assets, the Bank maintained Other operating expenses stable with ongoing cost improvement initiatives in Corporate real estate management resulting with further space and branch optimizations.

14. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

in HRK million

	2018	2017
Loans and receivables from customers	30.6	125.2
Investment securities	4.4	-
Accounts with banks and balances with Croatian National Bank	(4.0)	(13.3)
Loans and receivables from banks	(5.5)	1.1
Write offs	4.1	3.0
Total	**29.6**	**116.0**

As at 31 December 2018, for performing part of portfolio, the Bank recognized a ECL release for Stage 1 and Stage 2 in accordance with the CNB requirements of HRK -13.2 million (applied CNB minimum of 0.8% for items qualifying for these two stages). On the other hand, for Stage 3 the Bank recognized HRK 42.8 million of additional risk costs booked during 2018.

Largest amount of allocations observed in Stage 3 is coming from corporate clients with biggest effect due to additional bookings for already defaulted largest Croatian retailer and for some new defaults. The positive development of the risk provisions (releases) is mainly due to effects resulting from some medium and large non-performing clients within the Corporate segment, to successful debt sales, restructuring measures, as well as refinancing by other banks, as well as to settlement agreements and debt sales within the Retail Segment.

15. OTHER IMPAIRMENT LOSSES AND PROVISIONS

in HRK million

	2018	2017
Impairment of intangible assets	4.6	1.1
Impairment of land and buildings	2.7	11.2
Impairment of equipment	0.9	2.6
Impairment of assets acquired in lieu of uncollected receivables	0.3	0.6
Impairment of non-current assets and disposal groups classified as held for sale	0.2	0.8
Provisions for court cases	12.3	4.9
Provisions for restructuring expenses	1.9	0.6
Provisions for contractual obligations	0.6	2.1
Release of provisions for off-balance sheet exposures	(4.2)	(20.3)
(Release of provisions)/Provisions for other liabilities	(6.0)	5.2
Release of provisions for expenses during sale of subsidiaries	(12.1)	(0.6)
Total	**1.2**	**8.2**

16. INCOME TAX

in HRK million

	2018	2017
Deferred income tax	(17.3)	76.4
Income tax expense	**(17.3)**	**76.4**

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

in HRK million

	2018	2017
Net profit before tax	**188.2**	**153.3**
Tax at the statutory rate	(34.0)	(27.6)
Tax effect of non-taxable income	1.7	2.1
Tax effect of non-deductible costs	(11.1)	(6.7)
Utilization of loss carried forward	32.3	28.1
Deferred tax on losses from prior years carried forward	(6.2)	80.5
Income tax reported in the statement of profit or loss	**(17.3)**	**76.4**
Effective tax rate	0%	0%

Current tax assets of the Bank in the amount of HRK 0.7 million (2017: HRK 0.7 million) refer to the income tax advances paid to the Ministry of Finance, net of income tax liability.

As at 31 December 2018 the Bank has tax losses carried forward amounting to HRK 2,580.7 million (2017: HRK 2,759.8 million). 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.

16. INCOME TAX (CONTINUED)

Deferred tax asset related to unused tax losses of the Bank in the amount of HRK 2,167.8 million as at 31 December 2018 (2017: 2,312.4 million) 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:

in HRK million

	2018	2017
No more than 2 years	2,167.8	18.7
No more than 3 years	-	2,293.7
Total net tax losses carried forward not recognized as deferred tax asset	**2,167.8**	**2,312.4**

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

in HRK million

	Net deferred tax assets 2018	Recognized in total comprehensive income 2018	Net deferred tax assets 2017	Recognized in total comprehensive income 2017
Source:				
Unrealized losses on derivative financial instruments	0.4	0.2	0.2	(0.1)
Impairment of property and equipment	16.7	0.4	16.3	0.3
Deferred loan origination fees	5.8	(0.6)	6.4	(3.0)
Investments in subsidiary impairment	-	(6.8)	6.8	1.6
Other provisions	3.4	(2.3)	5.7	(4.8)
Pending court actions provisions	4.7	(2.2)	6.9	0.3
Employees provisions	4.3	0.2	4.1	1.6
Tax loss carried forward	74.3	(6.2)	80.5	80.5
Deferred tax in profit and loss account	**109.6**	**(17.3)**	**126.9**	**76.4**
Fair value of debt instruments at fair value through other comprehensive income	(5.1)	6.2	(11.3)	(9.5)
Land and buildings revaluation	(2.9)	0.4	(3.3)	0.2
Deferred tax relating to components of other comprehensive income	**(8.0)**	**6.6**	**(14.6)**	**(9.3)**
Total deferred tax	**101.6**	**(10.7)**	**112.3**	**67.1**

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

Based on the successful turnaround process initiated by the new ownership, which led the Bank 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.

17. CASH AND BALANCES WITH CROATIAN NATIONAL BANK

in HRK million

	2018	2017
Cash in hand	349.1	346.8
Cash on accounts with CNB	1,502.8	2,263.7
Nostro accounts and balances with other banks	199.1	947.7
Total cash and accounts with banks	**2,051.0**	**3,558.2**
Obligatory reserve	1,074.8	1,273.3
Total balances with Croatian National Bank	**1,074.8**	**1,273.3**
Impairment losses	(1.2)	(14.5)
Total	**3,124.6**	**4,817.0**

The Bank calculates obligatory reserve, HRK and foreign currency part, in the amount of 12% (2017: 12%) of deposits, borrowings, subordinated debt and other financial obligations.

The part of 75% (2017: 75%) of calculated foreign currency obligatory reserve is included in HRK obligatory reserve.

At least 70% (2017: 70%) of HRK obligatory reserves and 0% (2017: 0%) of foreign currency obligatory reserves have to be held with the CNB. The remaining amount can be held in the form of other liquid receivables.

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

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

Movement in gross carrying amount of cash and balances with the CNB:

in HRK million

	2018 Stage 1
At 1 January 2018	**4,484.7**
Increases due to origination and acquisition	17.3
Changes in the gross carrying amount	(1.723,1)
Decreases due to derecognition	(2.2)
At 31 December 2018	**2,776.7**

Movement in impairment losses of cash and balances with the CNB:

in HRK million

	2018 Stage 1
At 1 January 2018	**(5.2)**
Changes due to change in credit risk (net allocation)	(14.0)
Changes due to change in credit risk (net release)	18.0
At 31 December 2018	**(1.2)**

17. CASH AND BALANCES WITH CROATIAN NATIONAL BANK (CONTINUED)

in HRK million

	2017
Impairment losses at the beginning of the year	**(27.8)**
Net releases charged during the year	13.3
Impairment losses at the end of the year	**(14.5)**

18. TRADING ASSETS

in HRK million

	2018	2017
Bonds issued by Republic of Croatia	99.1	33.4
Total	**99.1**	**33.4**

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

19. LOANS AND RECEIVABLES FROM BANKS

in HRK million

	2018	2017
Deposits	-	374.9
Loans	-	100.0
Other receivables	2.5	14.3
Impairment losses	-	(2.0)
Total	**2.5**	**487.2**

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

in HRK million

	2018 Stage 1
At 1 January 2018	**489.2**
Increases due to origination and acquisition	4,717.2
Changes due to change in credit risk (net allocation)	4.1
Changes due to change in credit risk (net release)	(4.0)
Decreases due to derecognition	(5,204.0)
At 31 December 2018	**2.5**

19. LOANS AND RECEIVABLES FROM BANKS (CONTINUED)

Movement in impairment losses of loans and receivables from banks:

in HRK million

	2018 Stage 1
At 1 January 2018	**(5.5)**
Increases due to origination and acquisition	(7.8)
Decreases due to derecognition	13.3
At 31 December 2018	**-**

in HRK million

	2017
Impairment losses at the beginning of the year	**(0.9)**
Net allowances charged during the year	(1.1)
Impairment losses at the end of the year	**(2.0)**

20. LOANS AND RECEIVABLES FROM CUSTOMERS

a) By type of customer

in HRK million

	2018	2017
Individuals	6,218.8	6,465.5
Private companies and sole traders	4,802.7	4,739.0
Public sector	142.9	395.9
Other	55.4	10.8
Impairment losses	(1,144.2)	(1,164.6)
Total	**10,075.6**	**10,446.6**

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 46.1 million (2017: HRK 56.0 million), treasury bills of Ministry of Finance in the amount of HRK 11.2 million and shares of domestic companies in the total amount of HRK 27.2 million (2017: HRK 18.7 million).

20. LOANS AND RECEIVABLES FROM CUSTOMERS (CONTINUED)

b) Loans to individuals by purpose

in HRK million

	2018	2017
Housing loans	3,385.6	3,938.8
Cash loans	2,115.1	1,706.2
Overdrafts	223.1	242.1
Mortgage loans	85.4	107.3
Loans based on credit cards	82.5	92.5
Car loans	47.6	70.3
Other loans	269.2	298.7
Other receivables	10.3	9.6
Total	**6,218.8**	**6,465.5**

c) By industrial sector

in HRK million

	2018	2017
Individuals	6,218.8	6,465.5
Wholesale and retail trade	1,486.6	1,385.9
Other manufacturing	510.8	472.2
Hotels and restaurants	416.4	411.8
Public administration and defence	142.8	382.9
Other personal service activities	337.2	379.2
Manufacturing of food products and beverages	170.4	353.4
Education	290.6	331.3
Construction	441.0	268.5
Agriculture, hunting, forestry and fishing	240.6	261.6
Real estate business	68.1	180.3
Financial intermediation	70.0	150.1
Transport, storage and equipment	220.4	143.5
Electricity, gas and water supply	151.6	103.0
Manufacturing of fabricated metal products	236.9	99.7
Manufacturing of chemicals	74.9	72.9
Health and social work	36.9	47.0
Manufacturing of other non-metallic mineral products	18.8	23.7
Manufacturing of wearing apparel, dressing and dying of fur	10.7	11.9
Manufacturing of other transport equipment	11.6	8.1
Other	64.7	58.7
Subtotal	*11,219.8*	*11,611.2*
Impairment losses	(1,144.2)	(1,164.6)
Total	**10,075.6**	**10,446.6**

20. LOANS AND RECEIVABLES FROM CUSTOMERS (CONTINUED)

Movement in gross carrying amount of loans and receivables:

in HRK million

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

Movement in impairment losses of loans and receivables:

in HRK million

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

in HRK million

	Bank 2017 Specific	Bank 2017 Unidentified	Bank 2017 Total
Impairment losses at the beginning of the year	**(1,272.5)**	**(98.7)**	**(1,371.2)**
Net allowances/(releases) charged during the year	(120.7)	(4.5)	(125.2)
Foreign exchange differences	21.3	-	21.3
Sales and write off	165.8	-	165.8
Write off related to conversion of CHF loans	6.0	-	6.0
Transfer to assets held for sale	138.7	-	138.7
Impairment losses at the end of the year	**(1,061.4)**	**(103.2)**	**(1,164.6)**

21. INVESTMENT SECURITIES

in HRK million

	2018	2017
Financial assets at fair value through other comprehensive income		
Bonds issued by the government	2,050.1	-
Bonds issued by foreign banks	1,185.1	-
Bonds issued by foreign governments	987.3	-
Bonds issued by domestic companies	144.2	-
Bonds issued by foreign companies	99.4	-
Impairment losses	(7.4)	-
Total financial assets at fair value through other comprehensive income	*4,458.7*	-
Financial assets at fair value through other comprehensive income (option)		
Equity securities	27.3	-
Total financial assets at fair value through other comprehensive income (option)	*27.3*	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-
Participations in investment funds	121.2	-
Total non-trading financial assets mandatorily at fair value through profit or loss	*121.2*	-
Financial assets available for sale		
Bonds issued by the government	-	1,894.0
Bonds issued by foreign banks	-	1,538.0
Bonds issued by foreign governments	-	834.8
Treasury bills of Ministry of Finance	-	238.3
Participations in investment funds	-	131.8
Bonds issued by foreign companies	-	102.5
Bonds issued by domestic companies	-	73.7
Equity securities	-	25.4
Impairment losses	-	(1.9)
Total financial assets available for sale	-	*4,836.6*
Total	**4,607.2**	**4,836.6**

Due to not favourable 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 slightly decreased its investments measured at fair value through comprehensive income in 2018 compared to 2017. Named action did not have any negative influence on Bank's performance while at the same time Bank has maintained moderate and acceptable risk profile and preserved liquidity with the highest quality of the underlying assets.

The bonds issued by the Government of Republic of Croatia are financial instruments issued in HRK, USD and EUR (2017: HRK, USD and EUR) with interest rates from 1.75% to 6.75% (2017: 1.75% to 6.75%) and maturities from 2019 to 2025 (2017: 2018 to 2023).

The bonds issued by foreign banks are financial instruments issued in EUR and USD (2017: EUR and USD) with interest rates from 0.13% to 5.38% (2017: 0.17% to 5.38%) and maturities from 2019 to 2024 (2017: 2018 to 2023).

The bonds issued by foreign governments are financial instruments issued in EUR and USD (2017: EUR and USD) with interest rates from 0.35% to 6.38% (2017: 0.40% to 6.38%) and maturities from 2019 to 2024 (2017: 2018 to 2022).

21. INVESTMENT SECURITIES (CONTINUED)

The bond issued by a domestic company is a financial instrument issued in USD (2017: USD) with interest rate 5.88% (2017: 5.88%) and maturity in 2022 (2017: 2022).

The bonds issued by foreign companies are financial instruments issued in EUR (2017: EUR) with interest rates from 2.00% to 2.63% (2017: 2.00% to 2.63%) and maturities in 2022 (2017: 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 2018 investment securities were not pledged as collateral. As at 31 December 2017 available for sale financial assets in the amount of HRK 155.4 million were pledged as collaterals for payables under repurchase agreements.

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

in HRK million

	2018	2017
Balance as at 1st January	**51.5**	**8.4**
Total net unrealized (loss)/gain of the year	*(34.2)*	*52.5*
Net unrealized (loss)/gain for the year	(23.8)	62.5
Recycled to profit or loss	(10.4)	(10.0)
Net deferred tax	6.2	(9.4)
Balance as at 31st December	**23.5**	**51.5**

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

in HRK million

	2018 Stage 1
At 1 January 2018	**4,684.4**
Increases due to origination and acquisition	1,271.7
Changes due to change in credit risk (net allocation)	910.9
Changes due to change in credit risk (net release)	(794.3)
Decreases due to derecognition	(1,606.6)
At 31 December 2018	**4,466.1**

21. INVESTMENT SECURITIES (CONTINUED)

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

in HRK million

	2018 Stage 1
At 31 December 2017	**-**
Impact of adopting IFRS 9	(3.0)
At 1 January 2018	**(3.0)**
Increases due to origination and acquisition	(14.1)
Changes due to change in credit risk (net allocation)	(3.3)
Changes due to change in credit risk (net release)	12.0
Decreases due to derecognition	1.0
At 31 December 2018	**(7.4)**

Movement in impairment losses of financial assets available for sale:

in HRK million

	2017 Specific
Impairment losses at the beginning of the year	**1.9**
Impairment losses at the end of the year	**1.9**

22. INVESTMENT PROPERTY

in HRK million

	Investment property
Acquisition cost	
At 1 January 2018	**11.3**
Disposals	(0.4)
At 31 December 2018	**10.9**
Accumulated depreciation	
At 1 January 2018	**2.1**
Depreciation for the year 2018	0.2
Disposals	(0.3)
At 31 December 2018	**2.0**
Impairment	
At 1 January 2018	**2.8**
At 31 December 2018	**2.8**
Book value	
1 January 2018	6.4
31 December 2018	**6.1**

in HRK million

	Investment property
Acquisition cost	
At 1 January 2017	**16.0**
Revaluation	(0.2)
Disposals	(0.1)
Transfers from assets acquired in lieu of uncollected receivables	0.9
Transfers to assets held for sale	(5.3)
At 31 December 2017	**11.3**
Accumulated depreciation	
At 1 January 2017	**3.5**
Depreciation for the year 2017	0.3
Disposals	(0.1)
Transfers to assets held for sale	(1.6)
At 31 December 2017	**2.1**
Impairment	
At 1 January 2017	**3.6**
Transfers to assets held for sale	(0.8)
At 31 December 2017	**2.8**
Book value	
1 January 2017	8.9
31 December 2017	**6.4**

22. INVESTMENT PROPERTY (CONTINUED)

The estimated fair value of investment property as at 31 December 2018 amounted to HRK 8.2 million (2017: HRK 9.2 million). The fair value is determined by applying the income approach and is based on the estimated rental value of the properties.

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

in HRK million

	2018 Level 1	2018 Level 2	2018 Level 3	2018 Total
Investment property	-	-	8.2	8.2

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

in HRK million

	2017 Level 1	2017 Level 2	2017 Level 3	2017 Total
Investment property	-	-	9.2	**9.2**

The property rental income earned from investment property, all of which was leased out under operating leases, amounted to HRK 1.7 million (2017: 2.0 million) and is presented within other operating income.

The direct operating expenses relating to the investment properties that generated revenue during the reporting period are below HRK 0.1 million in both comparative periods while direct operating expenses relating to the investment properties that did not generate any revenue during the reporting period amounted to HRK 0.1 million (2017: 0.1 million).

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

23. PROPERTY AND EQUIPMENT

in HRK million

	Land and buildings	Computers and other equipment	Assets under construction	Total
Acquisition cost/revalued amount				
At 1 January 2018	**369.2**	**299.4**	**5.8**	**674.4**
Additions	3.4	10.7	10.9	25.0
Transfer from assets under construction	4.9	1.9	(6.8)	-
Revaluation	(0.9)	-	-	(0.9)
Disposals	(0.7)	(19.8)	(5.1)	(25.6)
Transfer to assets held for sale	-	-	-	-
At 31 December 2018	**375.9**	**292.2**	**4.8**	**672.9**
Accumulated depreciation				
At 1 January 2018	**120.9**	**249.2**	**-**	**370.1**
Depreciation for the year 2018	7.1	9.5	-	16.6
Disposals	(0.1)	(17.5)	-	(17.6)
Transfer to assets held for sale	-	-	-	-
At 31 December 2018	**127.9**	**241.2**	**-**	**369.1**
Impairment				
At 1 January 2018	**80.6**	**19.0**	**0.8**	**100.4**
Impairment for the year 2018	2.7	0.9	-	3.6
Disposals	(0.5)	(2.1)	(0.8)	(3.4)
Transfer to assets held for sale	-	-	-	-
At 31 December 2018	**82.8**	**17.8**	**(0.0)**	**100.6**
Book value				
1 January 2018	167.7	31.2	5.0	203.9
31 December 2018	**165.2**	**33.2**	**4.8**	**203.2**

23. PROPERTY AND EQUIPMENT (CONTINUED)

in HRK million

	Land and buildings	Computers and other equipment	Assets under construction	Total
Acquisition cost/revalued amount				
At 1 January 2017	**409.5**	**299.7**	**10.7**	**719.9**
Additions	2.9	11.5	7.9	22.3
Transfer from assets under construction	8.9	2.9	(11.8)	-
Revaluation	(0.7)	-	-	(0.7)
Disposals	(4.9)	(14.7)	(0.1)	(19.7)
Transfer to assets held for sale	(46.5)	-	(0.9)	(47.4)
At 31 December 2017	**369.2**	**299.4**	**5.8**	**674.4**
Accumulated depreciation				
At 1 January 2017	**137.0**	**251.5**	**-**	**388.5**
Depreciation for the year 2017	8.8	12.1	-	20.9
Disposals	(2.6)	(14.4)	-	(17.0)
Transfer to assets held for sale	(22.3)	-	-	(22.3)
At 31 December 2017	**120.9**	**249.2**	**-**	**370.1**
Impairment				
At 1 January 2017	**72.0**	**17.3**	**-**	**89.3**
Impairment for the year 2017	10.4	2.0	1.4	13.8
Disposals	(0.3)	(0.3)	-	(0.6)
Transfer to assets held for sale	(1.5)	-	(0.6)	(2.1)
At 31 December 2017	**80.6**	**19.0**	**0.8**	**100.4**
Book value				
1 January 2017	200.5	30.9	10.7	242.1
31 December 2017	**167.7**	**31.2**	**5.0**	**203.9**

The amount of fully depreciated Bank's property and equipment at 31 December 2018 amounts to HRK 235.2 million (2017: HRK 258.4 million).

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

in HRK million

	2018 Level 1	2018 Level 2	2018 Level 3	2018 Total
Land and buildings	-	-	165.2	**165.2**

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

in HRK million

	2017 Level 1	2017 Level 2	2017 Level 3	2017 Total
Land and buildings	-	-	167.7	**167.7**

23. PROPERTY AND EQUIPMENT (CONTINUED)

The last revaluation of Bank's land and buildings was performed at the end of 2018 and was based on estimations performed by independent internal and external experts. Certain significant inputs were used that are not observable (Level 3 of fair value hierarchy).

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

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

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

in HRK million

	2018	2017
Acquisition cost	362	354
Accumulated depreciation	(125.4)	(118.3)
Impairment	(82.7)	(80.6)
Net book value	**153.5**	**154.8**

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

24. INTANGIBLE ASSETS

in HRK million

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

in HRK million

	Software	Other's intangible assets	Assets under construction	Total
Acquisition cost				
At 1 January 2017	**275.8**	**0.7**	**1.9**	**278.4**
Additions	15.0	-	8.1	23.1
Transfer from assets under construction	4.2	-	(4.2)	-
Disposals	(5.8)	-	(1.1)	(6.9)
At 31 December 2017	**289.2**	**0.7**	**4.7**	**294.6**
Accumulated amortization				
At 1 January 2017	**241.9**	**0.7**	**-**	**242.6**
Amortization for the year 2017	8.0	-	-	8.0
Disposals	(5.4)	-	-	(5.4)
At 31 December 2017	**244.5**	**0.7**	**-**	**245.2**
Impairment				
At 1 January 2017	**0.6**	**-**	**-**	**0.6**
Impairment for the year 2017	1.1	-	-	1.1
Disposals	(0.3)	-	-	(0.3)
At 31 December 2017	**1.4**	**-**	**-**	**1.4**
Book value				
1 January 2017	33.3	-	1.9	35.2
31 December 2017	**43.3**	**-**	**4.7**	**48.0**

The amount of fully amortized Bank's intangible assets at 31 December 2018 amounts to HRK 107.6 million (2017: HRK 108.4 million).

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

in HRK million

	2018	2017
Loans and receivables	**-**	**88.7**
Loans and receivables	*-*	*227.4*
Impairment of loans and receivables	*-*	*(138.7)*
Investments in subsidiaries	**-**	**-**
HYPO ALPE-ADRIA-LEASING d.o.o. u likvidaciji Zagreb	*-*	*37.5*
Impairment of investment in HYPO ALPE-ADRIA-LEASING d.o.o. u likvidaciji Zagreb	*-*	*(37.5)*
Property and equipment	**20.3**	**23.4**
Property and equipment	*21.3*	*24.2*
Impairment of property and equipment	*(1.0)*	*(0.8)*
Investment properties	**2.1**	**2.9**
Total assets	**22.4**	**115.0**
Liabilities	-	-
Net carrying amount of disposal group	**22.4**	**115.0**

Loans and receivables as at 31 December 2017 presented in the table above include net amount of HRK 88.7 million of loans and receivables subject to the transaction of sale of financial assets. Sale transaction was executed on 29 January 2018 with the company EOS MATRIX d.o.o..

Following the strategy to focus on core banking business, Management Board of the Bank decided to exit from the leasing business. In course of 2018 Hypo Alpe-Adria-Leasing d.o.o. u likvidaciji was successfully sold.

Property and equipment as presented in the table above include the net amount of HRK 0.7 million (2017: HRK 0.7 million) of IT related assets, HRK 19.6 million (2017: HRK 22.8 million) of land and buildings and HRK 2.1 million (2017: HRK 2.9 million) of investment properties classified as held for sale.

26. OTHER ASSETS

in HRK million

	2018	2017
Deferred expenses	34.4	13.0
Assets acquired in lieu of uncollected receivables	13.5	10.9
Receivables based on card business	11.7	14.0
Receivables for VAT prepayment	2.2	1.0
Other advances	1.9	0.4
Inventories	1.4	1.4
Receivables for VAT prepayment	1.2	1.5
Other advances	0.1	-
Funds allocated by court order	-	34.6
Other assets	6.2	8.5
Impairment losses	(0.9)	(0.6)
Total	**71.7**	**84.7**

Funds allocated by court order in 2017 as presented in the table above relates to funds allocated to special account for settlement of legal dispute upon completion of proceedings.

27. CURRENT ACCOUNTS AND DEPOSITS FROM BANKS

in HRK million

	2018	2017
Demand deposits	175.1	90.2
Term deposits	3.2	3.4
Total	**178.3**	**93.6**

28. CURRENT ACCOUNTS AND DEPOSITS FROM CUSTOMERS

a) By type of customer

in HRK million

	2018	2017
Deposits from individuals	9,480.8	10,544.2
Deposits from corporate clients	3,763.0	4,609.1
Deposits from public sector	250.0	235.2
Deposits from other customers	103.4	114.9
Total	**13,597.2**	**15,503.4**

b) By term

in HRK million

	2018	2017
Demand deposits	8,950.0	7,656.6
Term deposits	4,647.2	7,846.8
Total	**13,597.2**	**15,503.4**

29. BORROWINGS

in HRK million

	2018	2017
Domestic banks	358.9	424.0
Domestic companies	-	153.8
Total	**358.9**	**577.8**

Contractual interest rates on borrowings as at 31 December 2018 are in the range from 0.00% to 5.12% (31 December 2017: 0.00% to 5.61%) and maturities ranging from 2019 to 2029 (2017: from 2018 to 2029).

30. SUBORDINATED DEBT

in million

Currency	Interest rate	2018 Amount in currency	2018 Amount in HRK	2017 Amount in currency	2017 Amount in HRK
EUR	6-month EURIBOR+4,52%	138.6	1,028.4	138.6	1,041.9
EUR	7 % fixed	-	-	100.0	751.7
Total			**1,028.4**		**1,793.6**

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.

As a means of optimising Bank's liquidity position, in 2018 the Bank has executed the premature repayment of subordinated debt in the amount of HRK 738.6 million.

31. PROVISIONS

in HRK million

	2018	2017
Legal provisions	59.1	92.2
Provisions for other employee benefits	27.9	25.9
Provisions for commitments and contingent liabilities	19.3	24.0
Provisions for severance (termination) payments	5.7	0.1
Provisions for restructuring expenses	3.1	4.5
Provisions for sale of subsidiaries	-	12.1
Other provisions	15.9	22.1
Total	**131.0**	**180.9**

31. PROVISIONS (CONTINUED)

The Bank 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 59.1 million (2017: HRK 92.2 million) 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.

Movement in provisions for liabilities and charges:

in HRK million

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

in HRK million

	2017	2017	2017	2017	2017	2017	2017	2017
	Contingent liabilities	Legal cases	Retirement/ termination	Other employee benefits	Restructuring expenses	Sale of subsidiaries	Other provisions	Total
Provisions at the beginning of the year	**44.3**	**87.3**	**11.1**	**17.0**	**21.0**	**22.2**	**30.1**	**233.0**
Charges recognized in statement of profit or loss	9.6	25.2	-	19.5	1.4	-	12.0	67.7
Releases recognized in statement of profit or loss	(29.9)	(20.3)	-	(0.9)	(0.8)	(0.6)	(10.6)	(63.1)
Utilization	-	-	(11.0)	(9.7)	(17.1)	(9.5)	(9.4)	(56.7)
Provisions at the end of the year	**24.0**	**92.2**	**0.1**	**25.9**	**4.5**	**12.1**	**22.1**	**180.9**

32. OTHER LIABILITIES

in HRK million

	2018	2017
Items in the course of settlement	58.7	58.7
Payables based on card business	49.2	47.5
Liabilities to suppliers	39.1	42.8
Due to employees	17.2	17.3
Temporary deposits made as investments in domestic companies	5.7	5.9
Payables for VAT	3.6	4.3
Unallocated foreign currency receipts	3.4	1.2
Other liabilities	7.0	8.4
Total	**183.9**	**186.1**

33. SHARE CAPITAL

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

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

	2018 in HRK million	2018 %	2017 in HRK million	2017 %
Addiko Bank AG, Wien	2,558.9	100.00	2,558.9	100.00
Total	**2,558.9**	**100.00**	**2,558.9**	**100.00**

The movement in the number of shares was as follows:

	2018 Shares	2018 in HRK million	2017 Shares	2017 in HRK million
Balance as at 1 January	1,248,243	2,558.9	1,248,243	2,558.9
Balance as at 31 December	**1,248,243**	**2,558.9**	**1,248,243**	**2,558.9**

At the end of 2018 Addiko Bank d.d. had 1,248,243 (2017: 1,248,243) issued ordinary shares of nominal value HRK 2,050 (2017: HRK 2,050).

34. RESERVES

Movement in reserves was as follows:

in HRK million

	Legal reserve	Other reserves	Revaluation reserve	Fair value reserve	Total
At 1 January 2017	**125.8**	**-**	**16.4**	**8.4**	**150.6**
Movement in fair value of available for sale financial assets	-	-	-	62.5	62.5
Net realized gain on available for sale financial assets	-	-	-	(10.0)	(10.0)
Revaluation of buildings and land	-	-	(0.9)	-	(0.9)
Transfer to retained earnings	-	-	(0.4)	-	(0.4)
Income tax relating to components of other comprehensive income	-	-	0.2	(9.4)	(9.2)
Cover of losses from prior years	(120.5)	-	-	-	(120.5)
At 31 December 2017	**5.3**	**-**	**15.3**	**51.5**	**72.1**
Movement in fair value of financial assets at fair value through other comprehensive income	-	-	-	(23.8)	(23.8)
Net realized gain on available for sale financial assets	-	-	-	(10.4)	(10.4)
Revaluation of buildings and land	-	-	(2.1)	-	(2.1)
Transfer to retained earnings	-	-	(0.5)	-	(0.5)
Income tax relating to components of other comprehensive income	-	-	0.4	6.2	6.6
Distribution of profit for the year 2017	122.7	4.6	-	-	127.3
Other changes	-	5.6	-	-	5.6
At 31 December 2018	**128.0**	**10.2**	**13.1**	**23.5**	**174.8**

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

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

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

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

35. COMMITMENTS AND CONTINGENT LIABILITIES

in HRK million

	2018	2017
Undrawn loans and loan commitments	990.2	823.0
Other risk off-balance sheet items	954.7	663.5
Guarantees	447.3	428.9
Letters of credit	41.1	7.8
Total	**2,433.3**	**1,923.2**

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

36. LEASES

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

in HRK million

	2018	2017
Not later than 1 year	21.6	22.6
Later than 1 year but not later than 5 years	63.2	48.5
Later than 5 years	23.6	31.9
Total	**108.4**	**103.0**

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

in HRK million

	2018	2017
Not later than 1 year	1.3	0.8
Later than 1 year but not later than 5 years	4.9	1.8
Later than 5 years	0.4	0.5
Total	**6.6**	**3.1**

37. DERIVATIVE FINANCIAL INSTRUMENTS

in HRK million

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

in HRK million

	2017	2017	2017
	Notional amount	Fair value assets	Fair value liabilities
Derivative financial instruments held for trading			
Foreign exchange forward contracts	376.4	1.9	0.6
Foreign exchange swaps	768.3	1.7	0.4
Cross currency swaps	691.6	3.2	-
Interest rates swaps	483.6	0.5	1.7
Total	**2,319.9**	**7.3**	**2.7**

38. RELATED PARTY TRANSACTIONS

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

Balances with related parties at 31 December were as follows:

in HRK million

	2018 Assets	2018 Liabilities	2018 Contingent liabilities	2018 Collaterals received
Parent company	6.0	1,094.2	-	-
Parent group	2.6	25.3	-	-
Key management	8.4	5.1	0.9	6.2
Other	35.6	3.1	-	-
Total	**52.6**	**1,127.7**	**0.9**	**6.2**

in HRK million

	2017 Assets	2017 Liabilities	2017 Contingent liabilities	2017 Collaterals received
Parent company	18.8	1,851.1	-	-
Parent group	116.1	7.1	-	-
Subsidiaries	94.9	0.3	5.0	-
Key management	13.6	11.5	1.5	11.0
Other	28.5	4.9	0.1	0.2
Total	**271.9**	**1,874.9**	**6.6**	**11.2**

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

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

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

38. RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with related parties were as follows:

in HRK million

	2018 Interest income	2018 Other income	2018 Interest expenses	2018 Other expenses
Parent company	6.3	23.0	71.9	10.4
Parent group	3.8	7.7	-	0.5
Key management	0.3	-	-	0.2
Other	-	0.1	-	1.2
Total	**10.4**	**30.8**	**71.9**	**12.3**

in HRK million

	2017 Interest income	2017 Other income	2017 Interest expenses	2017 Rental expenses	2017 Other expenses
Parent company	2.9	25.5	102.0	-	10.6
Parent group	3.9	7.7	-	-	0.1
Subsidiaries	3.3	0.7	-	1.3	-
Key management	0.5	0.1	0.1	-	0.2
Other	-	0.1	0.1	-	0.5
Total	**10.6**	**34.1**	**102.2**	**1.3**	**11.4**

Interest income includes mostly income from granted loans.

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

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

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

38. RELATED PARTY TRANSACTIONS (CONTINUED)

Key management compensation

The Bank considers that the key management personnel include Management 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:

in HRK million

	2018	2017
Salaries and other short-term benefits		
Net salaries	17.2	18.0
Tax and surtax expenses	9.3	9.5
Contributions on salaries	5.2	5.4
Pension insurance expenses	3.7	3.9
Total salaries and other short-term benefits	***35.4***	***36.8***
Termination benefits		
Net salaries	-	0.2
Total termination benefits	***-***	***0.2***
Total	**35.4**	**37.0**

Compensation to the Supervisory Board members for the year 2018 amounted to HRK 0.3 million (2017: HRK 0.2 million).

39. 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:

in HRK million

	2018	2017
Cash in hand, nostros and funds on CNB accounts	2,036.0	3,558.2
Placements with and loans to other banks with original maturity up to 3 months	-	362.2
Total	**2,036.0**	**3,920.4**

40. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date.

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

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

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

- The fair value of securities (financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income) is either based on available market prices, 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, DCF models or peer analysis in case comparison with similar instruments is required. The latter would then assume the market availability of comparable instruments' prices.

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

- The fair value of loans and receivables is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates. Fair value calculation of loans and receivables 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.

40. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents the comparison of the carrying amounts and fair values as at 31 December 2018 and 31 December 2017:

in HRK million

	2018 Carrying amount	2018 Fair value	2017 Carrying amount	2017 Fair value
Loans and receivables	11,126.45	12,131.85	12,203.87	12,779.56
Due to customers	15,173.23	15,256.06	17,554.06	18,155.63

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 2018 and 31 December 2017:

in HRK million

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

40. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

in HRK million

	2017 Level 1	2017 Level 2	2017 Level 3	2017 Total
Financial assets at fair value through profit or loss				
Trading assets	33.4	-	-	33.4
Derivative financial assets	-	5.9	1.4	7.3
Investment securities				
Financial assets available for sale	4,443.1	370.1	23.4	4,836.6
Total financial assets	**4,476.5**	**376.0**	**24.8**	**4,877.3**
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	-	(2.7)	-	(2.7)
Total financial liabilities	**-**	**(2.7)**	**-**	**(2.7)**

During the year 2018 participations in investment funds in the amount of HRK 131.8 million were reclassified from Level 2 to Level 1 and equity securities in the amount of HRK 20.4 million from Level 3 to Level 2 due to the reassessment of observability of market inputs for pricing model. During the year 2017 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.

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

in HRK million

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

in HRK million

	At 1 January 2017	Total gains/ (losses) recorded in profit or loss	Total gains recorded in other comprehensive income	At 31 December 2017
Financial assets at fair value through other comprehensive income:				
Equity securities	19.1	-	4.3	23.4
Financial assets at fair value through profit or loss:				
Derivative financial assets	-	1.4	-	1.4
Total level 3 financial assets	**19.1**	**1.4**	**4.3**	**24.8**
Financial liabilities at fair value through profit or loss:				
Derivative financial liabilities	(1.2)	1.2	-	-
Total level 3 financial liabilities	**(1.2)**	**1.2**	**-**	**-**

41. RISK MANAGEMENT

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

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

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

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

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

Bank has also established a Risk Appetite Framework (RAF) which sets the bank’s risk appetite and forms part of the process of development and implementation of the bank’s business and risk strategy. Furthermore, it determines the risks undertaken in relation to its risk capacity. The framework of risk appetite measures defines the risk level the bank is willing to accept. The calibration of measures takes into consideration the Budget 2018, risk strategy and the Recovery Plan giving an interlinked framework for proper internal steering and surveillance.

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

41. RISK MANAGEMENT (CONTINUED)

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

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

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

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

41.1. Credit risk

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

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

Credit risk management also includes monitoring and reporting of Concentration risk 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 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, quarterly and yearly basis, through reports which present current status and movement trends in the Bank portfolio. By reporting limits utilization and portfolio quality indicators overview, these reports enable effective risk management and efficient and timely decision making.

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

41. RISK MANAGEMENT (CONTINUED)

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

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.

41.1.1. Concentration risk

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

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

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

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

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

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

41. RISK MANAGEMENT (CONTINUED)

41.1.2. Currency induced credit risk (CICR)

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

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

41.1.3. 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.

41.1.4. 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.

41. RISK MANAGEMENT (CONTINUED)

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.

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

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

41.1.5. 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.

41.1.6. 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.

41. RISK MANAGEMENT (CONTINUED)

41.1.7. Macroeconomic risk

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

41.1.8. 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.

41.1.9. 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.

41.1.10. 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.

41. RISK MANAGEMENT (CONTINUED)

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.

41.1.11. 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.

41.1.12. Participation risk

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

41. RISK MANAGEMENT (CONTINUED)

41.2. Reconciliation between financial instruments classes and credit risk exposure

The credit risk exposure comprises the gross carrying amount (or nominal value in the case of off-balance-sheet exposures) without taking into account expected credit losses, provisions for guarantees, any collateral held, netting effects, other credit enhancements or credit risk mitigating transactions. Market values are used to calculate the relevant exposure for securities, whereas amortised cost is used for loans. Unless explicitly stated differently, all values in the risk report are shown inclusive the portfolio that is classified as held for sale according to IFRS 5.

Breakdown of net exposure within the Bank in accordance with IFRS 7.36 as at 31 December 2018:

in HRK million

31.12.2018	Performing			Non-Performing			Total	
Financial instruments	Exposure	ECLS1&2	Net	Exposure	ECL S3	Net	Exposure	Net
Cash reserves[1]	2,776.8	(1.2)	2,775.5	-	-	-	2,776.8	2,775.5
Loans and advances to customers	9,850.8	(103.9)	9,746.9	1,371.5	(1,040.3)	331.2	11,222.3	10,078.1
of which credit institutions	2.5	-	2.5	-	-	-	2.5	2.5
of which customer loans	9,848.3	(103.9)	9,744.4	1,371.5	(1,040.3)	331.2	11,219.8	10,075.6
Financial assets at FVTOCI[2]	4,458.7	(7.4)	4,451.3	-	-	-	4,458.7	4,451.3
Non-current asset held for sale - IFRS 5[3]	-	-	-	-	-	-	-	-
On balance total	**17,086.2**	**(112.5)**	**16,973.7**	**1,371.5**	**(1,040.3)**	**331.2**	**18,457.7**	**17,304.9**
Off-balance	2,410.0	(15.3)	2,394.7	23.3	(4.1)	19.3	2,433.3	2,414.0
Total	**19,496.3**	**(127.8)**	**19,368.5**	**1,394.8**	**(1,044.4)**	**350.5**	**20,891.1**	**19,718.9**

1) The position does not include cash on hand in amount of HRK 349.1 million. 2) Investment securities, without equity instruments. 3) Asset held for sale includes only loans and receivables designated for sale

The following table shows the exposure in accordance with IFRS 7.36 as at 31 December 2017:

in HRK million

31.12.2017	Performing			Non-Performing			Total	
Financial instruments	Exposure	PRP	Net	Exposure	SRP	Net	Exposure	Net
Cash reserves[1]	4,484.7	(14.5)	4,470.2	-	-	-	4,484.7	4,470.2
Loans and advances to customers	10,456.1	(106.7)	10,349.4	1,644.2	(1,059.8)	584.4	12,100.3	10,933.8
of which credit institutions	489.2	(2.0)	487.2	-	-	-	489.2	487.2
of which customer loans	9,966.9	(104.7)	9,862.2	1,644.2	(1,059.8)	584.4	11,611.1	10,446.6
Non-current asset held for sale - IFRS 5[2]	-	-	-	227.4	(138.7)	88.7	227.4	88.7
On balance total	**14,940.8**	**(121.2)**	**14,819.6**	**1,871.6**	**(1,198.5)**	**673.1**	**16,812.4**	**15,492.7**
Off-balance	1,862.7	(14.8)	1,847.9	60.5	(9.2)	51.3	1,923.2	1,899.2
Total	**16,803.5**	**(136.0)**	**16,667.4**	**1,932.2**	**(1,207.7)**	**724.5**	**18,735.6**	**17,391.9**

1) The position does not include cash on hand in amount of HRK 346.8 million. 2) Asset held for sale includes only loans and receivables designated for sale

41. RISK MANAGEMENT (CONTINUED)

41.3. Exposure by rating class

At 31 December 2018 roughly 15% of the exposure is categorised as rating classes 1A to 1E and roughly 60% is categorised as rating class 2A to 2E.

The overall NPE stock development in 2018 is mainly influenced by an increase due to capitalization of suspended interests due to the IFRS 9 implementation and reductions resulting from the executed portfolio sale, restructuring efforts and collection effects. Taking all these effects into consideration the overall non-performing exposure decreased during 2018 by HRK 537.3 million.

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

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

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

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

Loans and advances to customers and banks at amortised cost:

in HRK million

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

41. RISK MANAGEMENT (CONTINUED)

Debt instruments measured at FVTOCI:

in HRK million

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

Commitments and financial guarantees given:

in HRK million

Rating class	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
1A-1E	537.0	0.2	-	537.1
2A-2E	1,404.9	0.3	-	1,405.2
3A-3E	316.4	6.3	-	322.8
Watch	39.0	105.8	-	144.9
NPL	-	-	23.3	23.3
No rating	0.0	0.0	-	0.0
Total gross carrying amount	**2,297.4**	**112.6**	**23.3**	**2,433.3**
Loss allowance	**(8.4)**	**(6.9)**	**(4.1)**	**(19.3)**
Carrying amount	**2,289.0**	**105.7**	**19.3**	**2,414.0**

41. RISK MANAGEMENT (CONTINUED)

41.4. Exposure by business sector

The following tables present the exposure by industry based on the classification code "NACE Code 2.0". This code is mapped into ten business sectors for reporting purposes.

The lower-risk business sector groups (Financial and insurance activities) account for a share of 14.1% at YE18 (YE17: 22.3%). The well-diversified private customers sector accounts for a share of 31.9% (YE17: 38.1%).

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

in HRK million

Business sector	Exposure PE	ECL Stage 1&2	Exposure NPE	ECL Stage 3	Total Exposure	Total ECL
Private	6,095.3	58.4	567.1	439.0	6,662.4	497.5
Financial and insurance activities	2,934.5	2.6	0.2	0.0	2,934.7	2.7
Activities of extraterritorial organizations and bodies	2,269.6	6.5	-	-	2,269.6	6.5
Public administration and defence; compulsory social security	2,199.9	1.0	0.0	0.0	2,199.9	1.0
Wholesale and retail trade; repair of motor vehicles and motorcycles	1,594.6	12.9	397.5	300.9	1,992.1	313.9
Manufacturing	1,477.1	13.3	117.9	95.1	1,595.0	108.4
Construction	769.5	6.1	99.7	63.2	869.2	69.3
Accommodation and food service activities	408.6	5.3	30.2	14.1	438.8	19.4
Agriculture, forestry and fishing	262.5	7.1	62.5	42.2	325.0	49.3
Professional, scientific and technical activities	277.9	2.8	23.1	20.1	301.0	22.9
Education	291.2	0.9	1.0	0.6	292.2	1.4
Transporting and storage	264.5	1.7	21.9	14.4	286.4	16.1
Electricity, gas, steam and air conditioning supply	240.2	2.7	0.0	0.0	240.2	2.7
Information and communication	133.7	0.6	0.7	0.5	134.4	1.1
Water supply; sewerage; waste management and remediation activities	89.0	3.5	5.4	1.0	94.4	4.5
Administrative and support service activities	41.7	0.4	46.6	43.9	88.3	44.3
Real estate activities	60.3	1.4	11.7	3.0	71.9	4.4
Human health and social work activities	40.6	0.1	6.5	4.2	47.1	4.4
Arts, entertainment and recreation	34.2	0.2	0.1	0.1	34.4	0.3
Other services activities	10.6	0.1	1.8	1.6	12.4	1.6
Mining and quarrying	0.7	0.0	1.1	0.6	1.8	0.6
Total	**19,496.3**	**127.8**	**1,394.9**	**1,044.4**	**20,891.1**	**1,172.2**

41. RISK MANAGEMENT (CONTINUED)

The following table shows the exposure by business sector and region as at 31 December 2017:

in HRK million

Business sector	Exposure PE	PRP	Exposure NPE	SRP	Total Exposure	Total Provision
Private	6,235.9	59.1	892.1	625.0	7,128.0	684.0
Financial and insurance activities	4,143.3	16.2	41.9	21.5	4,185.2	37.6
Wholesale and retail trade; repair of motor vehicles and motorcycles	1,251.1	13.7	432.1	259.6	1,683.2	273.3
Manufacturing	1,313.8	13.5	136.2	80.3	1,450.0	93.9
Activities of extraterritorial organizations and bodies	1,024.6	3.9	-	-	1,024.6	3.9
Construction	473.8	6.2	107.8	62.1	581.6	68.2
Accommodation and food service activities	380.6	3.8	41.8	15.5	422.4	19.3
Public administration and defence; compulsory social security	386.3	1.4	0.0	0.0	386.3	1.4
Agriculture, forestry and fishing	248.9	4.7	111.9	66.7	360.7	71.3
Education	332.4	2.4	0.4	0.2	332.8	2.7
Professional, scientific and technical activities	231.3	2.7	67.4	28.6	298.7	31.3
Transporting and storage	173.6	1.7	22.2	14.1	195.8	15.8
Real estate activities	173.4	2.4	11.9	2.5	185.3	4.9
Information and communication	150.0	1.0	0.4	0.4	150.4	1.4
Water supply; sewerage; waste management and remediation activities	94.5	1.3	1.4	1.0	96.0	2.3
Administrative and support service activities	29.4	0.3	55.5	25.9	84.9	26.2
Electricity, gas, steam and air conditioning supply	61.6	0.8	0.0	0.0	61.6	0.8
Human health and social work activities	51.2	0.3	5.5	2.3	56.7	2.6
Arts, entertainment and recreation	32.7	0.4	0.2	0.1	32.9	0.5
Other services activities	13.8	0.2	2.0	1.5	15.9	1.7
Mining and quarrying	1.1	0.0	1.3	0.4	2.4	0.4
Total	**16,803.5**	**136.0**	**1,932.2**	**1,207.7**	**18,735.6**	**1,343.7**

41. RISK MANAGEMENT (CONTINUED)

41.5. Collateral distribution

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

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

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

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

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

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

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

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

Types of collaterals and internal collateral values (ICV) at 31 December 2018 and 31 December 2017 considered in the analysis above were as follows:

in HRK million

Collateral Distribution	31.12.2018	31.12.2017
Exposure	20,891.1	18,735.6
Internal Collateral Value (ICV)	4,510.7	5,704.9
thereof CRE	1,499.7	1,843.3
thereof RRE	2,551.6	3,037.3
thereof financial collateral	154.9	238.3
thereof guarantees	67.2	62.3
thereof other	237.4	523.6
ICV coverage rate	**21.6%**	**30.4%**

41. RISK MANAGEMENT (CONTINUED)

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

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

With the decrease of gross exposure also internal collateral value decreased. Primarily residential real estate's given as collaterals for Retail loans were reduced, due to decrease of mortgage loan portfolio in Retail (prime focus on consumer loans). Collateral coverage did decrease, but no significant decrease/change happened. Collateral Management Policy was completely redefined in 2017, primarily related to collateral types, its eligibility criteria and its internal values which are acceptable, and no changes related to it were done in 2018. The Bank did not significantly change its policies in 2018 related to collateral coverage required, except for minor updates due to alignment with changed market conditions, nor has changed criteria used for internal collateral value measurement in 2018.

41.6. Development of risk provisions

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

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

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

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

41. RISK MANAGEMENT (CONTINUED)

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

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

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

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

For the part of the non-performing portfolio where the exposure at default (EAD) on group of borrower's levels is below a EUR 150 thousand, the calculation of provisions for impairment losses is performed as a collective assessment (rule-based approach). The provision amount is calculated as product of EAD and loss given default (LGD), where LGD is based on relevant characteristics such as time in default, risk segment and product.

The positive development of the risk provisions (releases) is mainly due to effects resulting from some medium and large non-performing clients within the Corporate segment, to successful debt sales, restructuring measures, as well as refinancing by other banks, as well as to settlement agreements and debt sales within the Retail Segment. This resulted in a reduced NPE portfolio in 2018, and the release of risk provisions at the same time.

Besides the mentioned debt sale and settlement agreements, the release of the holding period of CHF converted loans in resulted in further risk provision releases primarily within the Retail segment. Further positive effects were achieved by collection and recovery process improvements.

The introduced daily monitoring supported by clear performance goals regarding early collections, together with an incentive program leads to considerable improvements in the early collections result and a significant reduction of the NPE portfolio. The positive, decreasing trend in terms of the NPE ratio was continuous throughout 2018 in all segments. The decrease was also experienced in absolute figures too. One of the largest contributions came from debt sale transactions and also through recovery movements especially in Retail secured portfolio. Another favourable effect was realized by repayments and debt settlements as a result of the strong collection performance.

41. RISK MANAGEMENT (CONTINUED)

A further decrease in NPEs is expected for 2019, although as the stock is shrinking the rate of decrease is expected to slow down.

Based on the ongoing model improvement framework at Addiko, updates are performed regularly to make sure that the latest available information and internal data is considered. In 2018 a refinement of PI unsecured models was performed, resulting among other things also in a recalibration. The changes included an improvement in model quality particularly reflected in migration stability as well as in improved performance. In addition, macro models were adapted in line with validation findings and new macroeconomic forecasts were used to reflect the latest available economic outlooks throughout all segments.

The following table shows the NPE and coverage ratio (coverage ratio 1 considers stage 3 risk provision stocks, while coverage ratio 2 additionally considers collaterals) according to the internal segmentation as of 31 December 2018:

in HRK million

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

The following table shows NPE and coverage ratio according to the internal segmentation valid as of 31 December 2017:

in HRK million

31.12.2017	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	Coverage Ratio 1	Coverage Ratio 2
Mortgage	4,217.9	737.1	491.6	418.7	17.5%	66.7%	123.5%
Consumer	2,871.9	154.6	133.0	32.9	5.4%	86.1%	107.4%
SME Business	3,394.7	424.7	241.4	272.9	12.5%	56.8%	121.1%
Large Corporate	2,280.0	611.6	339.5	136.0	26.8%	55.5%	77.8%
Public Finance	946.0	4.2	2.2	2.7	0.4%	51.5%	114.1%
Treasury	5,025.1	-	-	-	0.0%	0.0%	0.0%
Total	**18,735.6**	**1,932.2**	**1,207.7**	**863.2**	**10.3%**	**62.5%**	**107.2%**

The increase in coverage ratio predominantly results from the continues decrease of NPE through executed debt sale transactions and strong collection and recovery activities, as well as the recognition of the suspended interests as part of the 100.0% provisioned NPE exposure, in connection with the implementation of IFRS 9.

41. RISK MANAGEMENT (CONTINUED)

41.6.1. Breakdown of financial assets by degree of impairment

Financial assets that are neither overdue nor impaired:

in HRK million

	31.12.2018		31.12.2017	
Rating class	Exposure	Collateral	Exposure	Collateral
1A-1E	4,879.0	1,169.9	3,647.7	1,259.2
2A-2E	11,906.5	2,009.7	10,165.9	2,500.0
3A-3E	1,808.2	450.9	2,134.9	727.4
Watch	565.7	217.9	542.9	264.5
No rating	7.3	0.0	6.9	0.4
Total	**19,166.7**	**3,848.4**	**16,498.3**	**4,751.6**

Overdue but not impaired financial assets:

in HRK million

	31.12.2018		31.12.2017	
	Exposure	Collateral	Exposure	Collateral
– overdue to 30 days	285.2	108.1	269.1	74.5
– overdue 31 to 60 days	31.4	17.4	22.9	11.0
– overdue 61 to 90 days	13.0	6.0	13.2	4.7
– overdue 91 to 180 days	-	-	-	-
– overdue 181 to 365 days	-	-	-	-
– overdue over 1 year	-	-	-	-
Total	**329.5**	**131.5**	**305.2**	**90.1**

Impaired financial assets:

in HRK million

NPE	31.12.2018	31.12.2017
Exposure	1,394.9	1,932.2
Provisions	1,044.4	1,207.7
Collateral	530.8	863.2

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

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

41. RISK MANAGEMENT (CONTINUED)

41.7. Presentation of exposure by overdue days

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

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

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

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

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

Main movements for 2018 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 (NPE 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 continuous decrease of non-performing exposure.

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

Credit quality at 31 December 2018 was as follows:

in HRK million

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

41. RISK MANAGEMENT (CONTINUED)

Credit quality at 31 December 2017 was as follows:

in HRK million

31.12.2017	No Overdue	– overdue to 30 days	– overdue 31 to 60 days	– overdue 61 to 90 days	– overdue more than 90 days	Total
Mortgage	3,461.9	103.5	22.9	13.0	616.6	4,217.9
Consumer	2,682.6	57.1	11.2	6.8	114.1	2,871.9
SME Business	3,024.3	70.1	2.7	2.7	294.9	3,394.7
Large Corporate	1,758.5	64.6	-	-	456.9	2,280.0
Public Finance	945.1	0.4	-	0.0	0.5	946.0
Treasury	5,025.1	-	-	-	-	5,025.1
Total	**16,897.5**	**295.8**	**36.8**	**22.6**	**1,483.0**	**18,735.6**

41.8. Market risk

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

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

41.8.1. Value at Risk (VaR) analysis

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

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

41. RISK MANAGEMENT (CONTINUED)

Under the internal model, the variance-covariance method is used for the calculation of VaR for interest rate risk measurement in the Bank Book, 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 modelled 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 2018:

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

The following table presents VaR trends of specific risk factors during the year 2017:

Value at Risk	HRK Million	HRK Million	HRK Million	HRK Million
Risk category	Minimum	Maximum	Average	End of year
Interest rate risk – trading book	0.0	0.2	0.1	0.1
Interest rate risk – banking book	0.9	4.3	2.1	4.3
Credit spread risk	0.8	3.5	2.2	0.8
Currency risk	0.0	0.5	0.2	0.2
Total*	**1.8**	**8.4**	**4.6**	**5.3**

* Correlation effects are not considered in the above analysis.

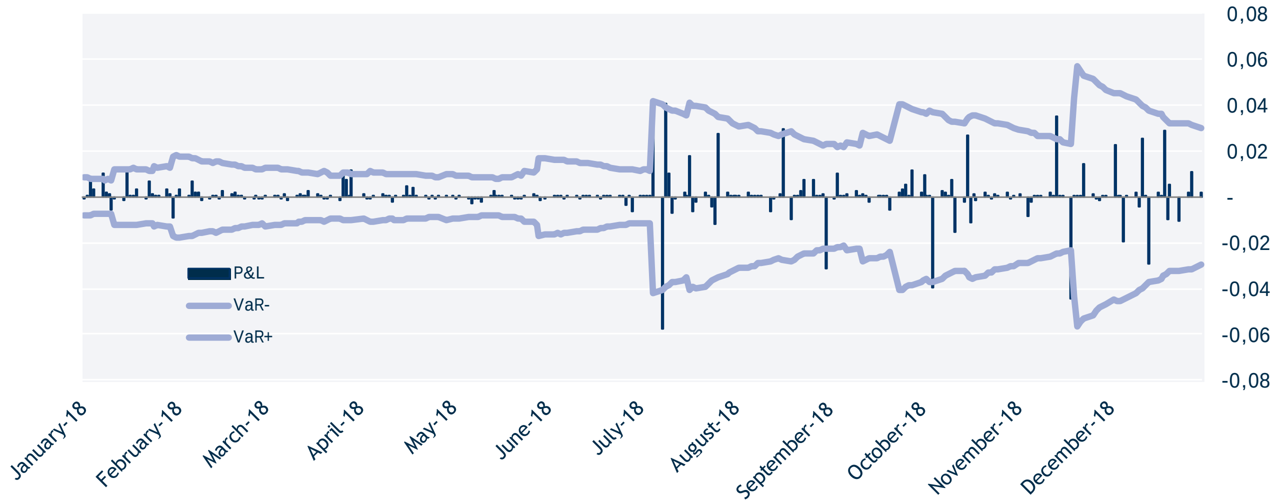
Comparing end of year figures, decrease of total risk amount in 2018 is mainly result of lower interest rate risk in bank book amid lower interest rate volatility and reduction in correlation effects as calculation input parameters. On the other hand, reduction in total market risk exposure was somewhat offset by increase of credit spread risk due to higher volatility of CDSs and, resultantly, probability of defaults of central government bonds in the Bank's portfolio. Furthermore, total market risk exposure was on average higher in 2018 against the year before primarily due to higher interest rate risk in bank book, whereas higher exposure to credit spread risk for securities portfolio likewise played a role in the same way.

41.8.2. Back testing

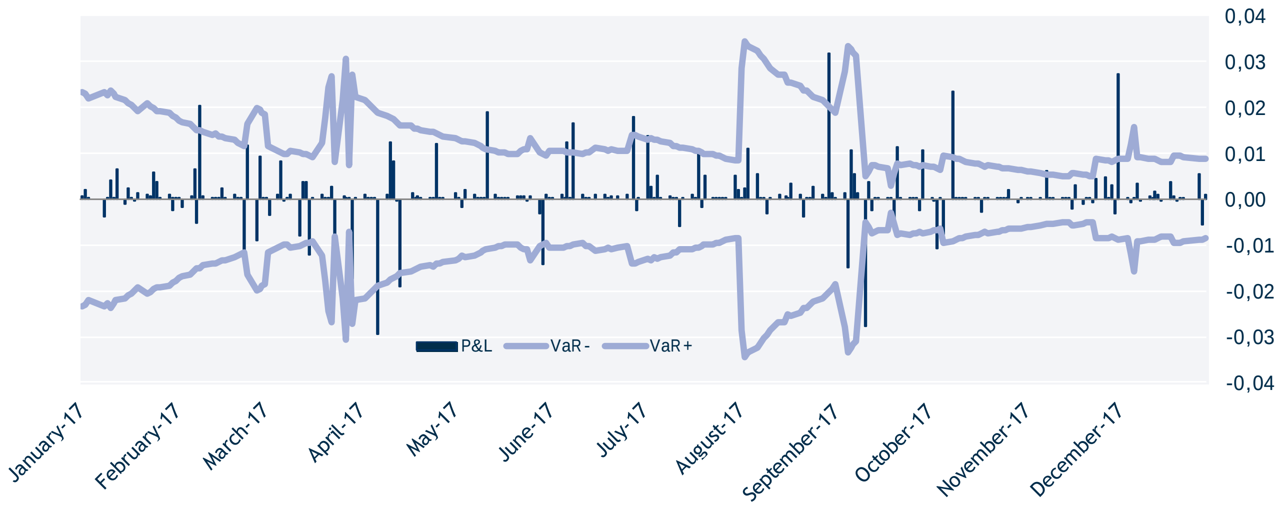
Back testing is an evaluation process of VaR model by applying the model calculations on realized historical performance. The Bank thus determines the deviation magnitude of realized performance against the results assumed by the VaR model. Back testing is based on Trading Book dataset in order to determine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

41. RISK MANAGEMENT (CONTINUED)

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



Following graph shows back testing of VaR model in relation to daily changes of profit or loss in the Trading Book for 2017, in EUR million:



41. RISK MANAGEMENT (CONTINUED)

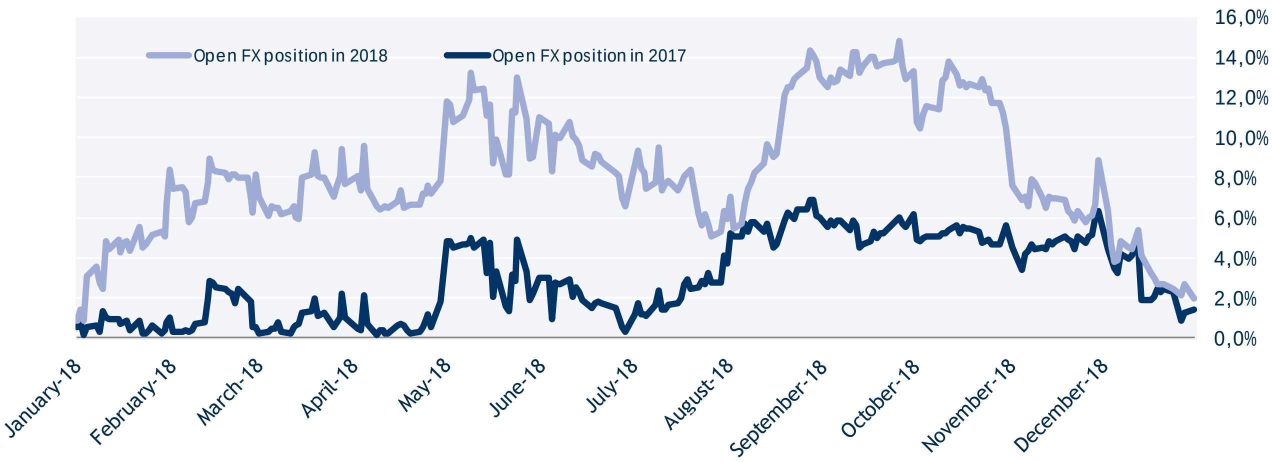
Back testing results of VaR model shows that during 2018 loss performance has exceeded VaR figures in 4 cases. The number of exceeds of VaR figures counts for 2% share of total observations in 2018. The portfolio is accounted only for items that were held for a short period, which also shape only small share in the overall balance sheet, hence limiting potential losses therein.

41.8.3. Foreign currency risk

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

The Bank's Management Board establishes exposure limits at the overall level as well as per particular currency. The given internal limits represent the Bank's appetite for foreign currency risk exposure. In 2018, the Bank has continued with conservative strategy towards foreign currency risk exposure limited at EUR 0.2 million (equivalent to HRK 1.8 million) via internal Monte Carlo-based VaR calculation, whereas average total open FX position volume was 58% higher compared to 2017.

The following graph shows comparison in movements of open foreign currency position related to regulatory capital for the year 2018 and 2017:



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

41. RISK MANAGEMENT (CONTINUED)

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

in HRK million

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

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

in HRK million

	EUR	USD	CHF	CAD	Other
Open FX position	(45.4)	7.5	(5.1)	1.2	2.2
Net profit or loss effect	(4.5)	0.7	(0.5)	0.1	0.2

All limits for open FX position were respected thorough whole 2018. Monthly average total open FX position volume was in range from around EUR 1.2 million to EUR 38.8 million (equivalent to HRK 8.6 million to HRK 288.1 million), with EUR position consuming almost full size of total open FX position. With the EUR as the biggest part of total open FX position, FX risk measured by VaR remained at low levels, shaping limit utilization in sub-20% area.

The sensitivity analysis includes all foreign currency denominated items and adjustments of foreign currency openness at the year-end. The amount of adjustment is based at 10% change in foreign currency rates against the local currency HRK. A positive number indicates an increase in profit in case of the HRK 10% depreciation against the relevant currency. In case of HRK 10% appreciation against the relevant currency, there would be an equal impact but with an opposite sign.

41.8.4. Interest rate risk

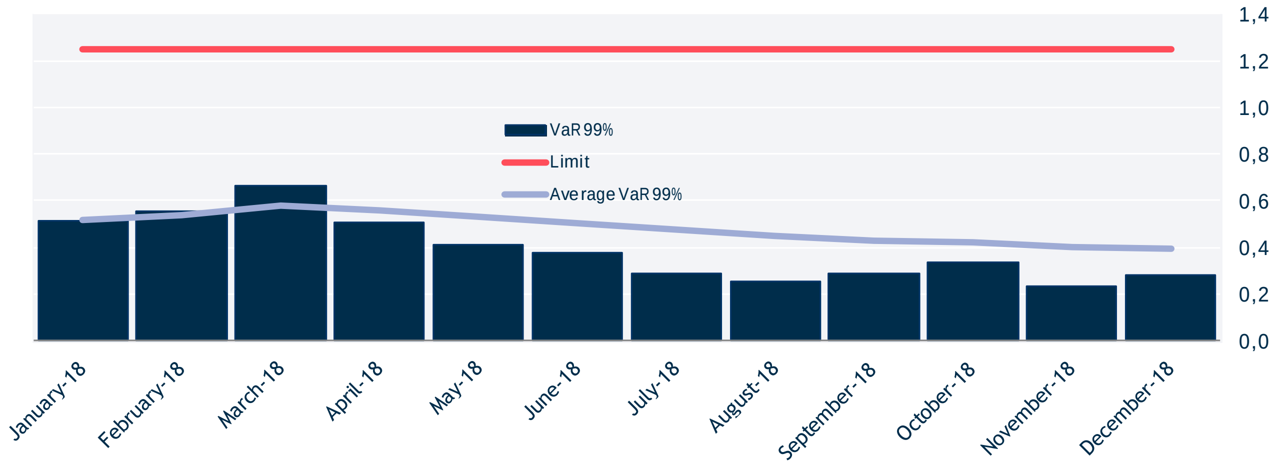
Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. Management of the interest rate risk is performed through the Interest rate gap report with the inclusion of utilization of internally accepted limits, and based on this 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 2018 with no major oscillations. As also in 2017, new loan placements with fixed interest rate and medium term maturity is a key feature in the change of balance sheet structure compared to years before, and this in line with the Bank's business strategy. In this connection, the Bank's funding structure still prevents a material increase in interest rate risk, and this amid reduction in share of term deposits alongside an increase in share of received funding with until further notice interest rate type. The Bank's interest rate risk management was also influenced by full compliance with the EBA guidelines for interest rate risk in the Bank Book management.

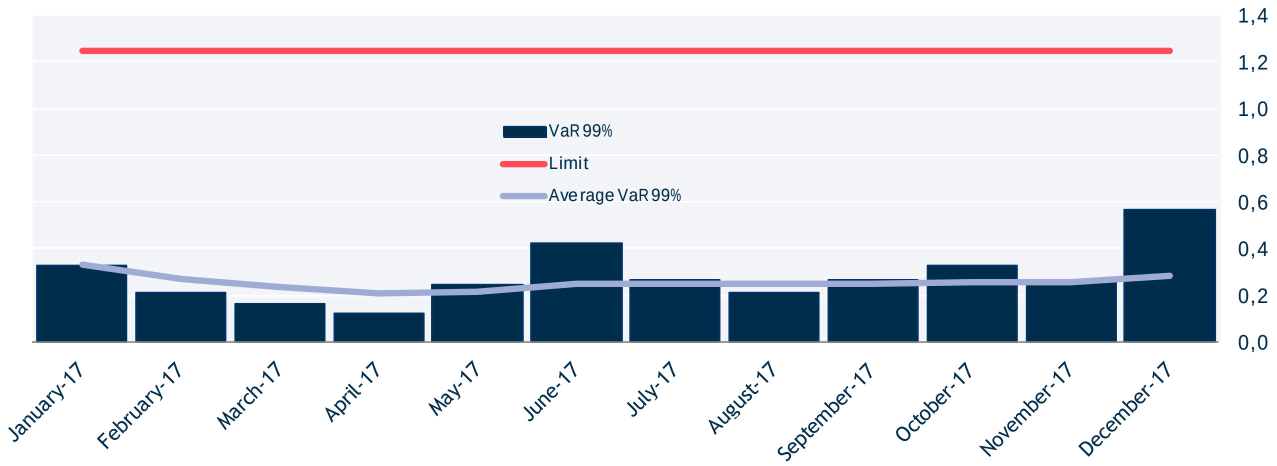
41. RISK MANAGEMENT (CONTINUED)

Internal VaR limit for interest rate risk in the Bank Book was maintained at EUR 1.3 million during 2018 or HRK 9.7 million.

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



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



A gradual reduction in interest rate volatility is the key reason for a gradual downtrend in interest rate risk measured by VaR model.

41. RISK MANAGEMENT (CONTINUED)

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

in HRK million

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

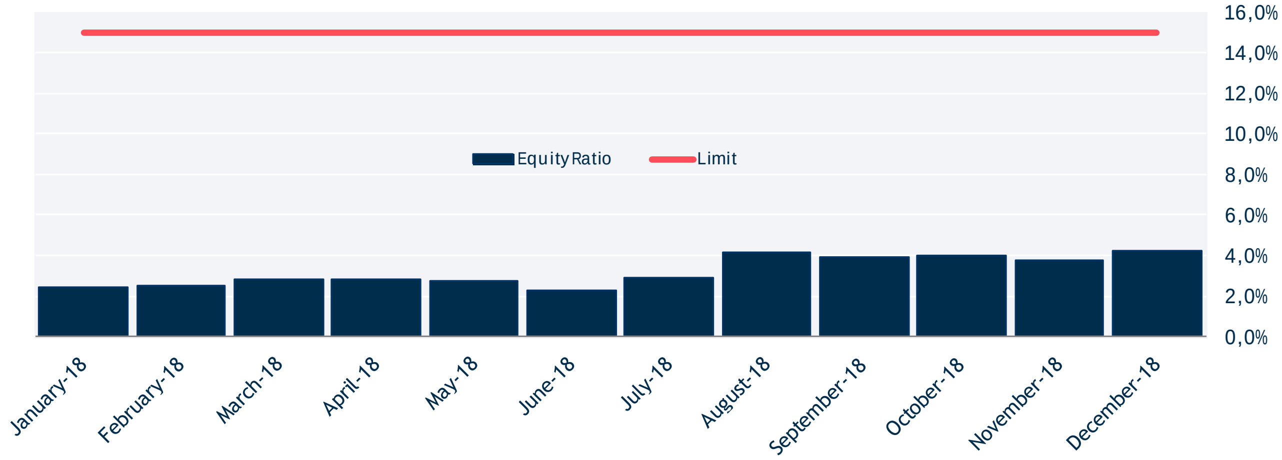
Interest GAP Balance for on-balance sheet positions as at 31 December 2017 is as follows:

in HRK million

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	No Effect*	Total
Assets	1,973.4	706.3	859.1	8,034.2	1,043.7	1,260.7	3,720.8	3,600.9	21,199.1
Liabilities	(3,279.4)	(1,098.6)	(1,303.4)	(6,504.5)	(2,035.1)	(684.2)	(2,918.1)	(3,375.9)	21,199.1
Interest GAP	**(1,306.0)**	**(392.2)**	**(444.3)**	**1,529.7**	**(991.4)**	**576.4**	**802.7**	**225.0**	-
Interest GAP (%)	**(6.2%)**	**(1.9%)**	**(2.1%)**	**7.2%**	**(4.7%)**	**2.7%**	**3.8%**	**1.1%**	**-**

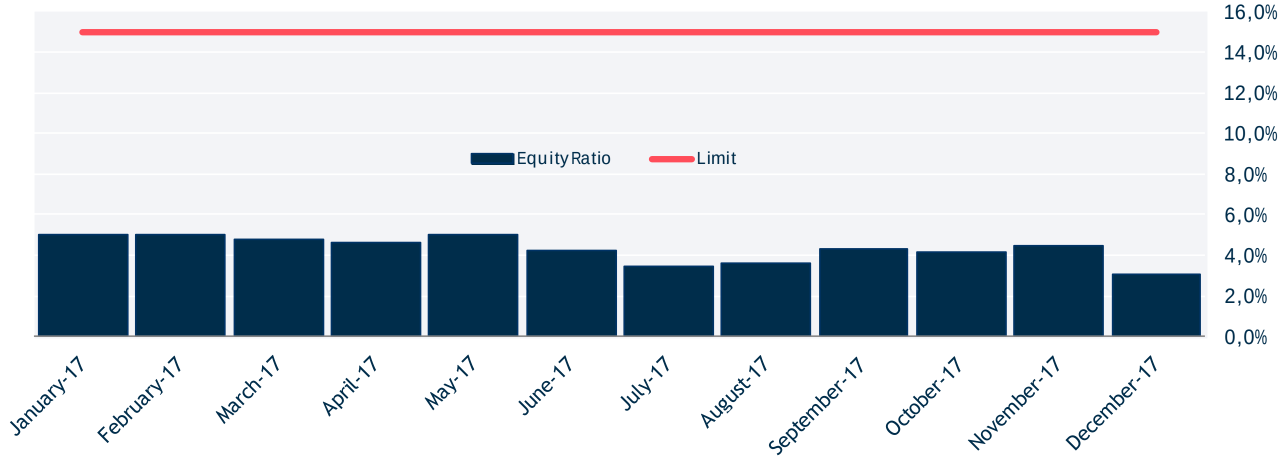
** "No Effect" position represents Share capital on Liability side and Tangible assets on Asset side.*

As shown on the chart for 2018, 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, USD and HRK components were major risk contributors throughout 2018. Monitoring of Equity ratio, which represents interest rate risk calculated as 200 BP interest rate shock in relation with regulatory capital, as well as monitoring of internally given limit of 15% of regulatory capital for 2018 are shown on the graph as follows:



41. RISK MANAGEMENT (CONTINUED)

Monitoring of Equity ratio which represents interest rate risk calculated as 200 BP interest rate shock in relation with regulatory capital, as well as monitoring of internally given limit of 15% of regulatory capital for 2017 is shown on the graph as follows:



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

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

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

Interest GAP sensitivity as at 31 December 2018:

in HRK million

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

Interest GAP sensitivity as at 31 December 2017:

in HRK million

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	No Effect	Total
Interest GAP	**(1,306.0)**	**(392.2)**	**(444.3)**	**1,529.7**	**(991.4)**	**576.4**	**802.7**	**225.0**	**-**
50 BP parallel shift	0.0%	0.0%	0.1%	0.3%	0.7%	1.1%	3.6%	0.0%	-
P/L effect	**0.0**	**(0.1)**	**(0.4)**	**4.7**	**(6.8)**	**6.5**	**28.7**	**0.0**	**32.7**

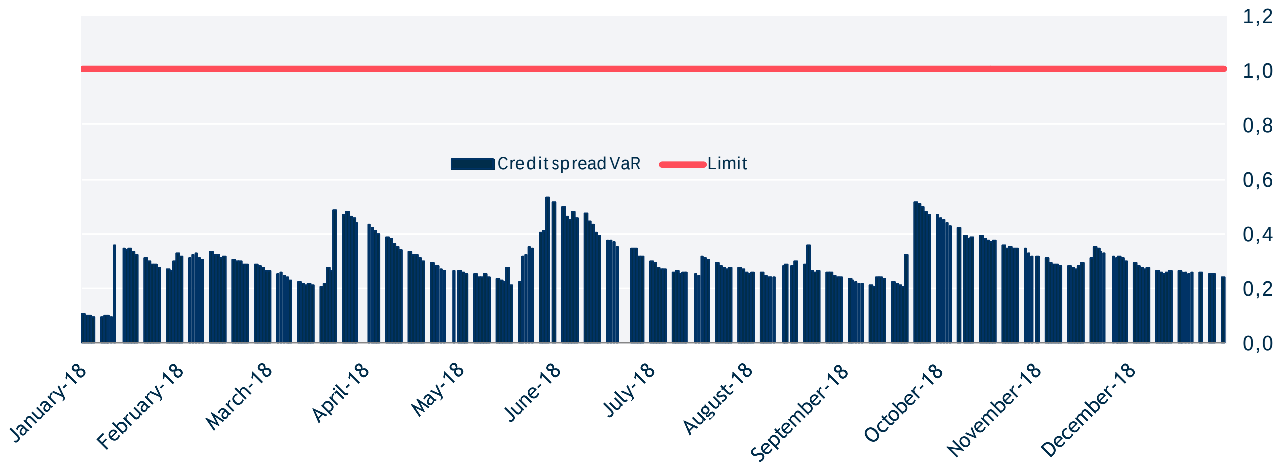
Sensitivity analysis is based on the principle described in Basel Committee on Banking Supervision "***Principles for the Management and Supervision of Interest Rate Risk***", July 2004, Annex 3 - The standardized interest rate shock.

41. RISK MANAGEMENT (CONTINUED)

41.8.5. Credit spread risk

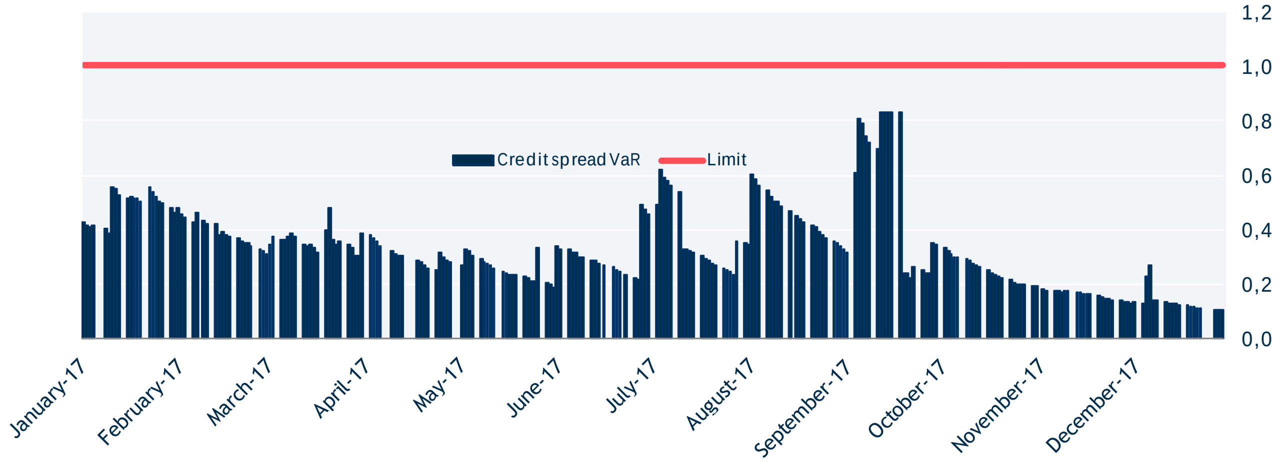
Credit spread risk represents the risk of debt instrument price change that comes out from a shift in expected client creditworthiness, which is usually reported through CDS curve. Along with the interest rate risk, credit spread risk represents a major risk factor within the market risks. Credit spread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

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



41. RISK MANAGEMENT (CONTINUED)

Historical trend of Bank exposure toward credit spread risk in EUR million, together with given VaR limit for credit spread risk for 2017 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.

41.9. Liquidity risk

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

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

The Bank has maintained a strong liquidity position during 2018 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.

41. RISK MANAGEMENT (CONTINUED)

The following table represents levels of liquidity coverage ratio obtained by the Bank in 2017 and 2018 and calculated out of daily values:

	2018 %	2017 %
Year End	166.7	204.7
Maximum	245.7	234.7
Minimum	137.0	125.9
Average	173.4	162.4

During 2018, 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 2018 and 2017:

	2018 %	2017 %
Year End	26.5	36.9
Maximum	38.5	39.6
Minimum	21.3	21.6
Average	30.4	29.1

The A/L ratio was maintained at around 30% during 2018 on average, which was on average on similar level that was marked on average during 2017. 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.

41. RISK MANAGEMENT (CONTINUED)

The following table shows the level of Liquidity ratios in 2018 and 2017:

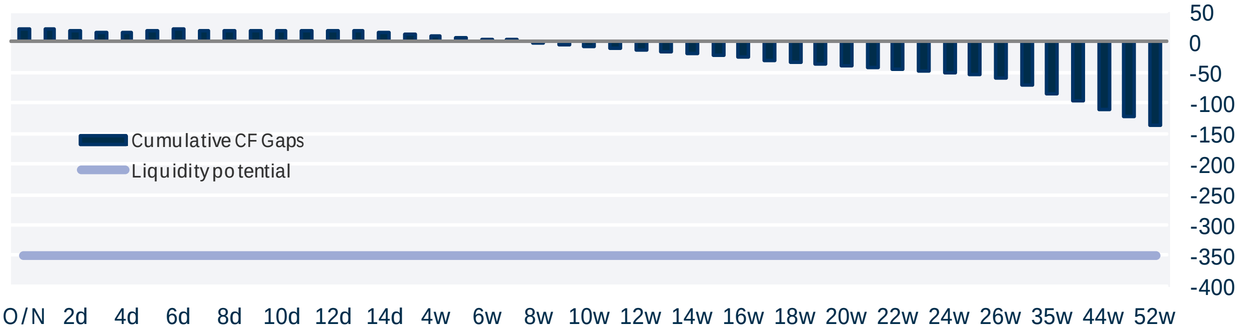
	2018 %	2017 %
Current liquidity ratio:		
Year End	35.6	41.0
Maximum	43.8	41.0
Minimum	34.5	31.6
Average	38.6	34.8
Loans to Deposits ratio:		
Year End	82.4	76.0
Maximum	83.1	88.4
Minimum	70.8	76.0
Average	77.0	84.7
Short term assets to short term Liabilities ratio:		
Year End	80.4	87.3
Maximum	102.9	87.3
Minimum	77.9	78.6
Average	88.8	82.8

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

41. RISK MANAGEMENT (CONTINUED)

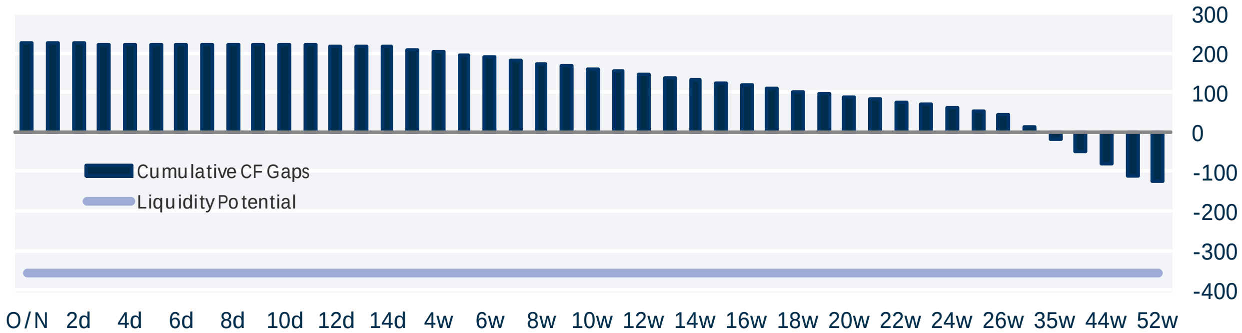
Graph below shows sufficiency of liquidity reserves in relation to net projected outflows ("Time to Wall" ratio) on 31 December 2018:

Normal Scenario		31.12.2018
Time to Wall		>52 weeks
Liquidity Position (EUR Mio) after	1 week	369.3
	1 month	359.8
	3 months	332.6
	6 months	290.3
	1 year	212.9



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 (EUR Mio) after	1 week	578.9
	1 month	559.2
	3 months	495.1
	6 months	400.0
	1 year	233.8



41. RISK MANAGEMENT (CONTINUED)

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

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

The following table gives an overview on original maturity divided into short-term (below 12 months) and long-term (over 12 months) buckets for Bank's financial assets and liabilities as of 31 December 2018:

in HRK million

	Maturity below 1 year	Maturity over 1 year	Total
Assets			
Cash	349.1	-	349.1
Balances with Croatian National Bank	2,576.4	-	2,576.4
Other deposits	198.6	-	198.6
Financial assets at FVTPL and FVTOCI	52.5	4,562.4	4,614.8
Loans and receivables	940.4	9,057.0	9,997.4
Total financial assets	**4,295.0**	**14,085.4**	**18,380.4**
Liabilities			
Received deposits	9,958.5	4,845.4	14,803.9
Received loans	10.4	358.9	369.3
Other liabilities	198.0	19.6	217.6
Total financial liabilities	**10,257.9**	**8,122.5**	**18,380.4**

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:

in HRK million

	Maturity below 1 year	Maturity over 1 year	Total
Assets			
Cash	346.8	-	346.8
Balances with Croatian National Bank	3,525.3	-	3,525.3
Other deposits	1,318.2	-	1,318.2
Financial assets at FVTPL and available for sale	390.9	4,479.9	4,870.8
Loans and receivables	1,110.4	9,339.6	10,450.0
Total financial assets	**6,895.2**	**14,303.9**	**21,199.1**
Liabilities			
Received deposits	9,067.5	8,323.2	17,390.7
Received loans	164.1	423.3	587.4
Other liabilities	181.9	21.2	203.1
Total financial liabilities	**9,570.4**	**11,628.7**	**21,199.1**

41. RISK MANAGEMENT (CONTINUED)

The following table details the remaining contractual maturity for Bank financial assets and liabilities as at 31 December 2018:

in HRK million

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Assets								
Cash	349.1	-	-	-	-	-	-	349.1
Balances with Croatian National Bank	-	0.9	0.1	0.3	-	3.4	2,578.1	2,582.7
Financial assets at FVTPL and FVTOCI	-	-	-	224.1	544.6	855.0	3,082.0	4,705.7
Placements with and loans to other banks	199.1	66.4	-	-	-	-	-	265.5
Loans and receivables	9.5	269.4	531.2	1,854.0	1,764.7	1,399.3	6,124.7	11,952.7
Other assets	2.5	19.6	5.1	15.1	12.5	11.7	291.2	357.7
Property, plant and equipment and intangible assets	-	-	-	-	-	-	298.6	298.6
Total assets	**560.1**	**356.2**	**536.4**	**2,093.5**	**2,321.8**	**2,269.4**	**12,374.6**	**20,512.1**
Liabilities								
Due to financial institutions	-	(314.6)	(38.3)	(108.1)	(112.6)	(1,106.4)	(967.2)	(2,647.3)
Deposits from customers	(8,256.3)	(411.7)	(881.2)	(2,193.7)	(626.5)	(46.6)	(91.4)	(12,507.4)
Deferred items	-	-	-	(0.0)	-	-	(0.2)	(0.2)
Provisions for liabilities and charges	(1.3)	(0.3)	(1.0)	(9.0)	(3.6)	(2.8)	(109.0)	(127.1)
Other liabilities	(0.2)	(12.3)	(10.1)	(22.9)	(8.0)	(15.1)	(226.3)	(295.0)
Equity	-	-	-	-	-	-	(2,898.6)	(2,898.6)
Total liabilities and equity	**(8,257.8)**	**(739.0)**	**(930.7)**	**(2,333.7)**	**(750.7)**	**(1,170.9)**	**(4,292.8)**	**(18,475.5)**
Gap per time band	(7,697.7)	(382.8)	(394.3)	(240.2)	1,571.1	1,098.6	8,081.8	
Gap in %	**(37.5%)**	**(1.9%)**	**(1.9%)**	**(1.2%)**	**7.7%**	**5.4%**	**39.4%**	

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 2018 the balance of term deposits from retail customers was HRK 3,877.5 million and as at 31 December 2017 it was at HRK 6,556.4 million.

41. RISK MANAGEMENT (CONTINUED)

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

in HRK million

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Assets								
Cash	346.8	-	-	-	-	-	-	346.8
Balances with Croatian National Bank	-	1.9	1.9	0.2	-	0.1	3,540.1	3,544.2
Financial assets at FVTPL and available for sale	-	-	-	723.7	498.5	994.5	2,652.8	4,869.5
Placements with and loans to other banks	947.7	409.5	0.9	115.6	-	-	-	1,473.7
Loans and receivables	23.7	234.4	568.3	2,235.4	1,666.4	1,416.6	6,717.9	12,862.7
Other assets	1.0	17.5	5.3	16.2	20.0	9.7	299.1	368.9
Investments in subsidiaries	-	-	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	-	-	263.0	263.0
Total assets	**1,319.2**	**663.3**	**576.3**	**3,091.1**	**2,185.0**	**2,420.8**	**13,472.9**	**23,728.7**
Liabilities								
Due to financial institutions	(0.6)	(259.3)	(87.7)	(490.1)	(885.8)	(113.7)	(2,555.5)	(4,392.8)
Deposits from customers	(6,494.6)	(708.0)	(1,047.2)	(4,643.3)	(713.9)	(61.5)	(128.6)	(13,797.2)
Deferred items	-	-	-	-	-	-	-	-
Provisions for liabilities and charges	(1.4)	-	(0.1)	(0.8)	(0.6)	(4.6)	(170.3)	(177.8)
Other liabilities	(0.2)	(16.4)	(16.9)	(49.9)	(15.5)	(5.5)	(67.7)	(172.1)
Equity	-	-	-	-	-	-	(3,017.3)	(3,017.3)
Total liabilities and equity	**(6,496.8)**	**(983.8)**	**(1,151.9)**	**(5,184.2)**	**(1,615.9)**	**(185.3)**	**(5,939.4)**	**(21,557.2)**
Gap per time band	(5,177.6)	(320.5)	(575.6)	(2,093.0)	569.1	2,235.5	7,533.6	
Gap in %	**(21.8%)**	**(1.4%)**	**(2.4%)**	**(8.8%)**	**2.4%**	**9.4%**	**31.7%**	

41. RISK MANAGEMENT (CONTINUED)

The following table details the remaining maturity for Bank's off-balance positions as at 31 December 2018:

in HRK million

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Off-Balance								
Non used overdrafts, frames and credit lines	1,683.5	8.2	20.3	186.1	-	5.9	39.4	1,943.4
Guarantees & Letters of credit	111.8	17.9	89.0	244.4	-	17.4	7.3	487.9
Derivatives nominal - long	-	542.6	79.5	91.3	-	-	-	713.5
Derivatives nominal - short	-	(542.6)	(79.5)	(91.3)	-	-	-	(713.5)

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

in HRK million

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Off-Balance								
Non used overdrafts, frames and credit lines	1,332.4	1.6	6.0	134.2	12.1	-	-	1,486.5
Guarantees & Letters of credit	12.8	17.3	46.9	174.1	179.0	-	-	430.1
Derivatives nominal - long	-	415.6	213.3	49.9	-	-	-	678.8
Derivatives nominal - short	-	(414.3)	(211.7)	(49.9)	-	-	-	(676.0)

41.10. Operational risk

Operational Risk is the risk of a loss resulting from inadequate or failed internal processes, systems, people or from external events. This definition includes legal risk.

Regulatory requirements with respect to the operational risk management process are related to continuous determination of risk to which the Bank is exposed or could be exposed in their operations and analysis of the risk exposure causes. Standards for an operational risk management process are aligned with the legislation of CNB.

To calculate the capital requirement for the operational risk, Bank uses the standardized approach.

Operational risk management process includes comprehensiveness of the organizational structure, policies, processes, procedures, systems and resources for identifying, measuring and assessing, controlling, monitoring and reporting of operational risk exposures and risk management in general, and includes the establishment of appropriate corporate governance and risk culture.

The organizational structure of the operational risk management reflects the fact that operational risk is inherent in the overall operations of the Bank including a Risk Control function as a central component that coordinates, analyses and monitors operational risk, and a decentralized component in all organizational units of the Bank responsible for everyday practical use and implementation of operational risk management process.

41. RISK MANAGEMENT (CONTINUED)

Within the operational risk management, roles and responsibilities are strictly defined and documented in internal documents which allow communication and collaboration at all levels, and an adequate flow and circulation of information relevant for operational risk management. Non blaming culture prevents any conflict of interest in the data collection process.

Raising awareness on operational risk management is carried out by continuously organizing internal trainings in the Bank and by establishing the Operational Risk Committee as a body for approval and discussion of strategic issues related to monitoring and managing operational risk at the level of the Bank.

Operational risk management process is based on a proactive approach to the early detection and prevention of operational risk events that could cause a loss. In the document "Operational Risk Management Policy" the Bank has summarized rules for the identification, assessment, management and control of the operational risk. Series of internal acts were created that strategically and operationally define operational risk management process and clearly define the roles and responsibilities of all the Bank's employees involved in it.

Methods of measuring the operational risk include both quantitative and qualitative methods, which represent the tool for observation of changes in the Bank's risk profile.

Quantitative method of measuring the operational risk includes the data collection about the events that resulted in losses or could result in losses due to the operational risk. Qualitative method of measurement of the operational risk includes an analysis of scenarios for events of low frequency and significant consequences on an annual basis, a risk assessment during the implementation of new products, entering into the new markets, outsourced activities, risk assessment within the significant projects and risk and control assessment in business processes according to internal control system methodology.

Internal Control System as part of the operational risk is the sum of all measures designed and implemented to determine, manage and minimize risks in business processes. It is built on a process oriented approach and it is a core component of all processes in the Bank that are part of or that influence the financial reporting of the Bank. The main goal of an Internal Control System process is to reduce the risks within the business area by establishing adequate control management and by continuous improvement of the process of the established control system in order to assure the correctness of financial and regulatory reporting.

Capital requirement for operational risk as at 31 December 2018 amounts to HRK 93.1 million. Total amount of realized losses, which were influenced by operational risk amounts to HRK 10. 3 million, and it represents 11.02 % of allocated capital requirements. These losses are recorded within 283 operational risk events.
The recovery is recorded in the amount of HRK 0.5 million, which represents net loss in the amount of HRK 9.8 million.

41. RISK MANAGEMENT (CONTINUED)

41.11. Other risks

41.11.1. Strategic risk / Business risk

Strategic risk arises from the faulty management decisions on corporate positioning, treatment of business sectors, the choice of business partners or the development and use of internal potentials.

Ability to manage strategic risk is crucial for its survival and long-term development. Strategic risk management primarily involves the ABC relation to the environment in which it operates, decisions in response to the changes that occur in its business environment and making decisions related to capital and other resources in a manner that creates a priority of the Bank as a whole in front of her competition.

Business risk is defined as potential loss in earnings due to adverse, unexpected changes in business volume, margins or both. Such losses can result above all from a serious deterioration of the market environment, customer shift, changes in the competitive situation or internal restructuring.

It can lead to serious losses in earnings, thereby diminishing the market value of a company.

Business risk is in principle driven by three key factors:

- Revenue Volatility
- Pre-tax Operating Profit Margin
- Cost Base Flexibility

Increased revenue volatility will increase the probability of revenue falling below costs, hence incurring a business risk loss.

41.11.2. Legal risk

Legal Risk is the risk of loss resulting from exposure to 1) to non-compliance with regulatory and/or statutory responsibilities and/or 2) adverse interpretation of and/or unenforceability of contractual provisions. This includes the exposure to new laws as well as changes in interpretations of existing law(s) by appropriate authorities and exceeding authority as contained in the contract. This applies to the full scope of Bank activities and may also include others acting on behalf of the Bank.

41.11.3. Outsourcing risk

Outsourcing risk represents the term for all the risks that can arise when the Bank is contractually delegating of activities to the service providers for services which would normally performed by the Bank itself and as such risk cannot be quantified separately, but its influence is being observed through other risks such as operational risk, strategic, reputational, legal, etc., which could have a negative effect on the financial result, business continuity or Bank reputation.

41. RISK MANAGEMENT (CONTINUED)

41.11.4. Reputational risk

The Reputational risk is defined as the current or prospective risk to earnings and capital arising from adverse perception of the image of the financial institution on the part of clients, counterparties, shareholders, investors or regulators.

The bank's reputation reflects the information that third parties have on how trustworthy the behaviour has been in the past.

ABC distinguishes between two major factors for reputational risk:

- Reputational risk caused by internal and external complaints
- Reputational risk as a matter of the damage to the bank´s image

41.11.5. Systemic risk

Systemic risk is understood as the risk of disruption in the financial system as a whole or parts of the financial system.

41.12. Derivative financial instruments

Credit exposure or replacement cost of financial derivative instruments represents the Bank's credit exposure from contracts with a positive fair value, that is, it indicates the estimated maximum potential losses of the Bank in the event that counterparties fail to perform their obligations. This is usually a small fraction of the notional amounts of the contracts. The credit exposure of each contract is indicated by the credit equivalent, calculated pursuant to generally applicable methodology using the current exposure method and it involves the fair market value of the contract (only if positive, otherwise a zero value is taken into account) and a portion of nominal value, which indicates the potential change in fair market value over the term of the contract. The credit equivalent is established depending on the type of contract and its maturity. The Bank periodically assesses credit risks of all financial instruments.

Derivative financial instruments used by the Bank include interest, cross-currency and currency swaps and forwards, whose value changes in response to changes in interest rates and foreign exchange rates. Derivatives are either standardized contracts transacted through regulated exchanges or individually negotiated contracts. Swap arrangements are used for hedging of exposure resulting from adverse movements in interest and exchange rates, as well as for transformation of currency liquidity.

42. CAPITAL MANAGEMENT

The Bank maintains an actively managed capital level to cover risks inherent in the business. The capital adequacy is monitored using, among other measures, the rules and ratios established by the European Banking Authority ("EBA") and CNB. In 2018 and 2017 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 Bank's regulatory capital requirements were based on Basel III.

The Bank's regulatory capital consist of Common Equity Tier 1 ("CET1") capital and Tier 2 capital ("T2"). The CET1 capital includes ordinary share capital, accumulated other comprehensive income, other reserves and transitional adjustments due to grandfathered CET1 capital instruments, and adjusted for amount due to prudential filters and deductions for intangible assets, deferred tax assets that rely on future profitability and do not arise from temporary differences, unrealized fair value losses on financial instruments designated as available for sale (year 2017) 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 Bank is 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.

42. CAPITAL MANAGEMENT (CONTINUED)

The following table presents regulatory capital and capital adequacy ratios as at 31 December 2018 and as at 31 December 2017:

in HRK million

	2018	2017
Regulatory capital:		
Core capital	2.656,3	2,362.6
Supplementary capital	513,6	914.9
Total regulatory capital	**3.169,9**	**3,277.5**
Credit risk-weighted assets and other risk exposures	**11.638,0**	**11,774.6**
Core capital adequacy ratio	22.82%	20.07%
Total regulatory capital adequacy ratio	27.24%	27.84%
Required regulatory capital adequacy ratio	8.00%	8.00%

There were no breaches of minimal regulatory limits related to capital adequacy in 2018 and in 2017 until the date of these financial statements.

APPENDIX TO THE FINANCIAL STATEMENTS

Pursuant to the Croatian Accounting Act (Official Gazette 78/2015, 134/2015, 120/2016, 116/2018) the Croatian National Bank issued the Decision on structure and contents of annual financial statements of credit institutions (Official Gazette 42/2018). The following tables present financial statements in accordance with the above mentioned decision:

Statement of Financial Position

in HRK million

Position	Position Name	2018	2017
	Assets		
1.	Cash, cash balances at central banks and other demand deposits (from 2. to 4.)	2,049.8	3,548.0
2.	*Cash on hand*	*349.1*	*346.8*
3.	*Cash balances at central banks*	*1,502.1*	*2,256.2*
4.	*Other demand deposits*	*198.6*	*945.0*
5.	Financial assets held for trading (from 6. to 9.)	104.8	40.7
6.	*Derivatives*	*5.7*	*7.3*
7.	*Equity instruments*	-	-
8.	*Debt securities*	*99.1*	*33.4*
9.	*Loans and advances*	-	-
10.	Non-trading financial assets mandatorily at fair value through profit or loss (from 11. to 13.)	121.2	-
11.	*Equity instruments*	*121.2*	-
12.	*Debt securities*	-	-
13.	*Loans and advances*	-	-
14.	Financial assets designated at fair value through profit or loss (15. + 16.)	-	-
15.	*Debt securities*	-	-
16.	*Loans and advances*	-	-
17.	Financial assets at fair value through other comprehensive income (from 18. to 20.)	4,486.0	4,836.6
18.	*Equity instruments*	27.3	23.4
19.	*Debt securities*	4,458.7	4,813.2
20.	*Loans and advances*	-	-
21.	Financial assets at amortised cost (22. + 23.)	11,153.0	12,298.0
22.	*Debt securities*	26.6	94.1
23.	*Loans and advances*	11,126.4	12,203.9
24.	Derivatives – hedge accounting	-	-
25.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
26.	Investments in subsidiaries, joint ventures and associates	-	-
27.	Tangible assets	187.0	203.1
28.	Intangible assets	82.2	65.8
29.	Tax assets	102.4	114.0
30.	Other assets	71.7	66.8
31.	Non-current assets and disposal groups classified as held for sale	22.4	26.3
32.	**Total assets (1. + 5. +10. +14. + 17. + 21. + from 24. to 31.)**	**18,380.5**	**21,199.3**

Statement of Financial Position (continued)

in HRK million

Position	Position Name	2018	2017
	Liabilities		
33.	Financial liabilities held for trading (from 34. to 38.)	4.2	2.7
34.	*Derivatives*	*4.2*	*2.7*
35.	*Short positions*	-	
36.	*Deposits*	-	
37.	*Debt securities issued*	-	
38.	*Other financial liabilities*	-	
39.	Financial liabilities designated at fair value through profit or loss (from 40. to 42.)	-	-
40.	*Deposits*	-	
41.	*Debt securities issued*	-	
42.	*Other financial liabilities*	-	
43.	Financial liabilities measured at amortised cost (from 44. to 46.)	15,173.3	17,979.1
44.	*Deposits*	*15,173.2*	*17,554.1*
45.	*Debt securities issued*	-	-
46.	*Other financial liabilities*	*0.1*	*425.0*
47.	Derivatives - hedge accounting	-	-
48.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
49.	Provisions	110.3	180.9
50.	Tax liabilities	-	4.3
51.	Share capital repayable on demand	-	-
52.	Other liabilities	194.1	171.2
53.	Liabilities included in disposal groups classified as held for sale	-	-
54.	**Total liabilities (33. + 39. + 43. + from 47. to 53.)**	**15,481.9**	**18,338.2**
	Capital		
55.	Share capital	2,558.9	2,558.9
56.	Share premium	-	-
57.	Equity instruments issued other than capital	-	-
58.	Other equity	-	-
59.	Accumulated other comprehensive income	36.6	66.8
60.	Retained earnings	(6.0)	0.4
61.	Revaluation reserves	-	-
62.	Other reserves	138.2	5.3
63.	(-) Treasury shares	-	-
64.	Profit or loss attributable to owners of the parent	170.9	229.7
65.	(-) Interim dividends	-	-
66.	Minority interests [non-controlling interests]	-	-
67.	**Total equity (from 55. to 66.)**	**2,898.6**	**2,861.1**
68.	**Total equity and total liabilities (54. + 67.)**	**18,380.5**	**21,199.3**

Signed on behalf of Addiko Bank d.d. Zagreb on 27 February 2019:

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

Statement of Profit or Loss

in HRK million

Position	Position Name	2018	2017
1.	Interest income	627.4	745.7
2.	(Interest expenses)	(164.4)	(263.5)
3.	(Expenses on share capital repayable on demand)	-	-
4.	Dividend income	0.1	0.1
5.	Fee and commission income	214.8	213.4
6.	(Fee and commission expenses)	(39.3)	(36.1)
7.	Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	10.4	10.0
8.	Gains or (-) losses on financial assets and liabilities held for trading, net	33.8	62.6
9.	Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	0.1	-
10.	Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-
11.	Gains or (-) losses from hedge accounting, net	-	-
12.	Exchange differences [gain or (-) loss], net	3.7	(19.9)
13.	Gains or (-) losses on derecognition of non-financial assets, net	-	-
14.	Other operating income	30.3	29.8
15.	(Other operating expenses)	(53.3)	(43.9)
16.	**Total operating income, net**	**663.6**	**698.2**
17.	(Administrative expenses)	(414.5)	(399.8)
18.	(Depreciation)	(26.7)	(29.3)
19.	Modification gains or (-) losses, net	-	-
20.	(Provisions or (-) reversal of provisions)	1.6	(10.6)
21.	(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	(27.2)	(112.0)
22.	(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	-	-
23.	(Impairment or (-) reversal of impairment on non-financial assets)	(8.6)	(16.2)
24.	Negative goodwill recognised in profit or loss	-	-
25.	Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates	-	-
26.	Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	23.0
27.	**Profit or (-) loss before tax from continuing operations**	**188.2**	**153.3**
28.	(Tax Expenses or (-) income related to profit or loss from continuing operations)	(17.3)	76.4
29.	**Profit or (-) loss after tax from continuing operations**	**170.9**	**229.7**
30.	**Profit or (-) loss after tax from discontinued operations**	**-**	**-**
31.	Profit or (-) loss before tax from discontinued operations	-	-
32.	(Tax expense or (-) income related to discontinued operations)	-	-
33.	**Profit or (-) loss for the year**	**170.9**	**229.7**
34.	Attributable to minority interest [non-controlling interests]	-	-
35.	Attributable to owners of the parent	170.9	229.7

Statement of Other Comprehensive Income

in HRK million

Position	Position Name	2018	2017
1.	**Profit or (-) loss for the year**	**170.9**	**229.7**
2.	**Other comprehensive income**	**(30.2)**	**42.0**
3.	**Items that will not be reclassified to profit or loss**	**(0.2)**	**3.7**
4.	Tangible assets	(1.1)	(6.5)
5.	Intangible assets	-	-
6.	Actuarial gains or (-) losses on defined benefit pension plans	-	-
7.	Non-current assets and disposal groups held for sale	(1.5)	5.2
8.	Share of other recognized income and expense of entities accounted for using the equity method	-	-
9.	Fair value changes of equity instruments measured at fair value through other comprehensive income	2.4	5.8
10.	Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-
11.	*Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]*	-	-
12.	*Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]*	-	-
13.	Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-
14.	Income tax relating to items that will not be reclassified	-	(0.8)
15.	**Items that may be reclassified to profit or loss**	**(30.0)**	**38.3**
16.	Hedge of net investments in foreign operations [effective portion]	-	-
17.	Foreign currency translation	-	-
18.	Cash flow hedges [effective portion]	-	-
19.	Hedging instruments [not designated elements]	-	-
20.	Debt instruments at fair value through other comprehensive income	(36.6)	46.7
21.	Non-current assets and disposal groups held for sale	-	-
22.	Share of other recognized income and expense of Investments in subsidiaries, joint ventures and associates	-	-
23.	Income tax relating to items that may be reclassified to profit or (-) loss	6.6	(8.4)
24.	**Total comprehensive income for the year**	**140.7**	**271.7**
25.	Attributable to minority interest [non-controlling interests]	-	-
26.	Attributable to owners of the parent	140.7	271.7

Signed on behalf of Addiko Bank d.d. Zagreb on 27 February 2019:

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

Statement of Cash Flows

in HRK million

Position	Position Name	2018	2017
	Operating activities by indirect method		
1.	Profit/(loss) before tax	188.2	153.3
	Adjustments:		
2.	Impairment and provisions	30.7	130.3
3.	Depreciation	26.7	29.3
4.	Net unrealized loss/(gain) from financial assets and liabilities at fair value through profit or loss	1.1	(7.3)
5.	(Gain)/loss on disposal of fixed assets	(2.7)	(1.4)
6.	Other non-monetary items	(471.4)	(507.4)
.	**Change in assets and liabilities from operating activities**		
7.	Balances with Croatian National Bank	198.5	(53.7)
8.	Deposits and loans with credit institutions	96.3	-
9.	Loans and advances to other customers	424.1	1,977.8
10.	Securities and other financial instruments at fair value through other comprehensive income	190.7	(876.1)
11.	Securities and other financial instruments held for trading	(108.0)	(0.7)
12.	Non-trading securities and other financial assets mandatorily at fair value through profit or loss	11.7	(28.6)
13.	Securities and other financial instruments mandatory at fair value through profit or loss	-	-
14.	Securities and other financial instruments mandatory at amortised cost	-	-
15.	Other assets from operating activities	23.4	(13.7)
16.	Deposits from financial institutions	84.6	(21.9)
17.	Transaction accounts of other customers	(88.9)	894.9
18.	Demand deposits of other costumers	1,394.7	1,025.0
19.	Term deposits of other customers	(3,090.0)	(1,643.6)
20.	Derivative financial liabilities and other trading liabilities	(0.2)	(0.1)
21.	Other liabilities from operating activities	(38.8)	(87.0)
22.	Interest received from operating activities	583.8	755.5
23.	Dividends received from operating activities	0.1	0.1
24.	Interest paid from operating activities	(217.3)	(313.4)
25.	(Income taxes paid)	-	(0.5)
26.	**Net cash flow from operating activities (from 1. to 25.)**	**(762.7)**	**1,410.8**
	Investing activities		
27.	Proceeds from sale/(payments for purchase) of tangible and intangible assets	(41.7)	(39.9)
28.	Proceeds from sale/(payments for purchase) of investments in subsidiaries, joint ventures and associates	-	17.8
29.	Proceeds from sale/(payments for purchase) of securities and other financial instruments from investing activities	-	9.9
30.	Dividends received from investing activities	-	-
31.	Other proceeds/(payments) from investing activities	-	-
32.	**Net cash flow from investing activities (from 27. to 31.)**	**(41.7)**	**(12.2)**
	Financing activities		
33.	Net increase/(decrease) of borrowings from financial activities	(215.1)	(16.7)
34.	Net increase/(decrease) of borrowings from issued debt securities	-	-
35.	Net increase/(decrease) of subordinated debt	(738.5)	(0.1)
36.	Increase of share capital	-	-
37.	(Dividend paid)	(102.4)	-
38.	Other proceeds/(payments) from financing activities	5.2	-
39.	**Net cash flows from financing activities (from 33. to 38.)**	**(1,050.8)**	**(16.8)**
40.	**Net increase/(decrease) of cash and cash equivalents (26. + 32. + 39.)**	**(1,855.2)**	**1,381.8**
41.	**Cash and cash equivalents at the beginning of the year**	**3,920.4**	**2,573.2**
42.	Effects of exchange rate changes on cash and cash equivalents	(29.2)	(34.6)
43.	**Cash and cash equivalents at the end of the year (40. + 41. + 42.)**	**2,036.0**	**3,920.4**

Statement of Changes in Equity

in HRK million

Position Name	Capital	Share premium	Equity instruments issued other than capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Minority interests		Total
												Accumulated other comprehensive income	Other items	
Opening balance [before restatement] for the year 2018	**2,558.9**	**-**	**-**	**-**	**66.8**	**0.4**	**-**	**5.3**	**-**	**229.7**	**-**	**-**	**-**	**2,861.1**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	(6.6)	-	-	-	-	-	-	-	(6.6)
Opening balance [current period] for the year 2018	**2,558.9**	**-**	**-**	**-**	**66.8**	**(6.2)**	**-**	**5.3**	**-**	**229.7**	**-**	**-**	**-**	**2,854.5**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	(102.4)	-	-	(102.4)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	-	-	-	-	-	(102.4)	102.4	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	-	0.2	-	132.9	-	(127.3)	-	-	-	5.8
Total comprehensive income for the year	-	-	-	-	(30.2)	-	-	-	-	170.9	-	-	-	140.7
Closing balance [current period] for the year 2018	**2,558.9**	**-**	**-**	**-**	**36.6**	**(6.0)**	**-**	**138.2**	**-**	**170.9**	**-**	**-**	**-**	**2,898.6**

Statement of Changes in Equity (continued)

in HRK million

Position Name	Capital	Share premium	Equity instruments issued other than capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Minority interests		Total
												Accumulated other comprehensive income	Other items	
Opening balance [before restatement] for the year 2017	**4,993.0**	**59.8**	**-**	**-**	**24.8**	**(2,673.6)**	**-**	**125.8**	**-**	**59.2**	**-**	**-**	**-**	**2,589.0**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance [current period] for the year 2017	**4,993.0**	**59.8**	**-**	**-**	**24.8**	**(2,673.6)**	**-**	**125.8**	**-**	**59.2**	**-**	**-**	**-**	**2,589.0**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	(2,434.1)	(59.8)	-	-	-	2,673.6	-	(120.5)	-	(59.2)	-	-	-	(0.0)
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	-	0.4	-	-	-	-	-	-	-	0.4
Total comprehensive income for the year	-	-	-	-	42.0	-	-	-	-	229.7	-	-	-	271.7
Closing balance [current period] for the year 2017	**2,558.9**	**-**	**-**	**-**	**66.8**	**0.4**	**-**	**5.3**	**-**	**229.7**	**-**	**-**	**-**	**2,861.1**

As data in financial statements prepared in accordance with the Croatian National Bank ("CNB") decision are classified differently from data in financial statements prepared according to the statutory accounting requirements for banks in Croatia, the following tables present comparatives.

Comparatives for the Statement of financial position - Assets at 31 December 2018:

in HRK million

Croatian National Bank's Decision		Statutory accounting requirements for banks in Croatia												
		Cash and balances with Croatian National Bank	Trading assets	Derivative financial assets	Loans and receivables from banks	Loans and receivables from customers	Investment securities	Investment property	Property and equipment	Intangible assets	Non-current assets and disposal groups classified as held for sale	Deferred tax assets	Current tax assets	Other assets
Assets														
Cash, cash balances at central banks and other demand deposits	2,049.8	2,049.8	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets held for trading	104.8	-	99.1	5.7	-	-	-	-	-	-	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	121.2	-	-	-	-	-	121.2	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	4,486.0	-	-	-	-	-	4,486.0	-	-	-	-	-	-	-
Financial assets at amortised cost	11,153.0	1,074.8	-	-	2.5	10,075.6	-	-	-	-	-	-	-	-
Tangible assets	187.0	-	-	-	-	-	-	6.1	180.9	-	-	-	-	-
Intangible assets	82.2	-	-	-	-	-	-	-	22.3	59.9	-	-	-	-
Tax assets	102.4	-	-	-	-	-	-	-	-	-	-	101.7	0.7	-
Other assets	71.7	-	-	-	-	-	-	-	-	-	-	-	-	71.7
Non-current assets and disposal groups classified as held for sale	22.4	-	-	-	-	-	-	-	-	-	22.4	-	-	-
Total assets	**18,380.5**	**3,124.6**	**99.1**	**5.7**	**2.5**	**10,075.6**	**4,607.2**	**6.1**	**203.2**	**59.9**	**22.4**	**101.7**	**0.7**	**71.7**

Comparatives for the Statement of financial position – Liabilities and Equity at 31 December 2018:

in HRK million

		Statutory accounting requirements for banks in Croatia										
Croatian National Bank's Decision		**Derivative financial liabilities**	**Current accounts and deposits from banks**	**Current accounts and deposits from customers**	**Borrowings**	**Subordinated debt**	**Provisions**	**Other liabilities**	**Share capital**	**Profit for the year**	**Retained earnings/ (accumulated losses)**	**Reserves**
Liabilities												
Financial liabilities held for trading	4.2	4.2	-	-	-	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	15,173.3	-	178.3	13,597.2	358.9	1,028.4	-	10.5	-	-	-	-
Provisions	110.3	-	-	-	-	-	110.3	-	-	-	-	-
Other liabilities	194.1	-	-	-	-	-	20.8	173.3	-	-	-	-
Total liabilities	**15,481.9**	**4.2**	**178.3**	**13,597.2**	**358.9**	**1,028.4**	**131.1**	**183.8**	**-**	**-**	**-**	**-**
Capital												
Share capital	2,558.9	-	-	-	-	-	-	-	2,558.9	-	-	-
Accumulated other comprehensive income	36.6	-	-	-	-	-	-	-	-	-	-	36.6
Retained earnings	(6.0)	-	-	-	-	-	-	-	-	-	(6.0)	-
Other reserves	138.2	-	-	-	-	-	-	-	-	-	-	138.2
Profit or loss attributable to owners of the parent	170.9	-	-	-	-	-	-	-	-	170.9	-	-
Total equity	**2,898.6**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,558.9**	**170.9**	**(6.0)**	**174.8**
Total equity and total liabilities	**18,380.5**	**4.2**	**178.3**	**13,597.2**	**358.9**	**1,028.4**	**131.1**	**183.8**	**2,558.9**	**170.9**	**(6.0)**	**174.8**

Comparatives for the Statement of financial position - Assets at 31 December 2017:

in HRK million

		Statutory accounting requirements for banks in Croatia												
Croatian National Bank's Decision		**Cash and balances with Croatian National Bank**	**Trading assets**	**Derivative financial assets**	**Loans and receivables from banks**	**Loans and receivables from customers**	**Investment securities**	**Investment property**	**Property and equipment**	**Intangible assets**	**Non-current assets and disposal groups classified as held for sale**	**Deferred tax assets**	**Current tax assets**	**Other assets**
Assets														
Cash, cash balances at central banks and other demand deposits	3,548.0	3,548.0	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets held for trading	40.7	-	33.4	7.3	-	-	-	-	-	-	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	4,836.6	-	-	-	-	-	4,836.6	-	-	-	-	-	-	-
Financial assets at amortised cost	12,298.0	1,269.1	-	-	487.2	10,446.6	-	-	-	-	88.7	-	-	6.4
Tangible assets	203.1	-	-	-	-	-	-	6.4	186.2	-	-	-	-	10.5
Intangible assets	65.8	-	-	-	-	-	-	-	17.7	48.0	-	-	-	0.1
Tax assets	114.0	-	-	-	-	-	-	-	-	-	-	112.3	0.7	1.0
Other assets	66.8	-	-	-	-	-	-	-	-	-	-	-	-	66.8
Non-current assets and disposal groups classified as held for sale	26.3	-	-	-	-	-	-	-	-	-	26.3	-	-	-
Total assets	**21,199.3**	**4,817.1**	**33.4**	**7.3**	**487.2**	**10,446.6**	**4,836.6**	**6.4**	**203.9**	**48.0**	**115.0**	**112.3**	**0.7**	**84.8**

Comparatives for the Statement of financial position – Liabilities and Equity at 31 December 2017:

in HRK million

		Statutory accounting requirements for banks in Croatia										
Croatian National Bank's Decision		**Derivative financial liabilities**	**Current accounts and deposits from banks**	**Current accounts and deposits from customers**	**Borrowings**	**Subordinated debt**	**Provisions**	**Other liabilities**	**Share capital**	**Profit for the year**	**Retained earnings/ (accumulated losses)**	**Reserves**
Liabilities												
Financial liabilities held for trading	2.7	2.7	-	-	-	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	17,979.0	-	93.6	15,503.4	577.8	1,793.6	-	10.6	-	-	-	-
Provisions	180.9	-	-	-	-	-	180.9	-	-	-	-	-
Other liabilities	4.3	-	-	-	-	-	-	4.3	-	-	-	-
Total liabilities	171.3	-	-	-	-	-	-	171.3	-	-	-	-
Capital	**18,338.2**	**2.7**	**93.6**	**15,503.4**	**577.8**	**1,793.6**	**180.9**	**186.2**	**-**	**-**	**-**	**-**
Share capital												
Accumulated other comprehensive income	2,558.9	-	-	-	-	-	-	-	2,558.9	-	-	-
Retained earnings	66.8	-	-	-	-	-	-	-	-	-	-	66.8
Other reserves	0.4	-	-	-	-	-	-	-	-	-	0.4	-
Profit or loss attributable to owners of the parent	5.3	-	-	-	-	-	-	-	-	-	-	5.3
Total equity	229.7	-	-	-	-	-	-	-	-	229.7	-	-
Total equity and total liabilities	**2,861.1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,558.9**	**229.7**	**0.4**	**72.1**

Comparatives for the statement of profit or loss ended 31 December 2018:

in HRK million

Croatian National Bank's Decision		Statutory accounting requirements for banks in Croatia														
		Interest income	Interest expense	Fee and commission income	Fee and commission expense	Net trading income	Net investment income	Net foreign exchange differences	Other operating income	Personnel expenses	Depre-ciation	Amorti-zation	Other operating expenses	Net impairment loss on financial assets	Other impairment losses and provisions	Income tax
Interest income	627.4	627.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(Interest expenses)	(164.4)	-	(164.4)	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend income	0.1	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-
Fee and commission income	214.8	-	-	214.8	-	-	-	-	-	-	-	-	-	-	-	-
(Fee and commission expenses)	(39.3)	-	-	-	(39.3)	-	-	-	-	-	-	-	-	-	-	-
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	10.4	-	-	-	-	-	10.4	-	-	-	-	-	-	-	-	-
Gains or (-) losses on financial assets and liabilities held for trading, net	33.8	-	-	-	-	33.8	-	-	-	-	-	-	-	-	-	-

in HRK million

Croatian National Bank's Decision		Statutory accounting requirements for banks in Croatia: Interest income	Interest expense	Fee and commission income	Fee and commission expense	Net trading income	Net investment income	Net foreign exchange differences	Other operating income	Personnel expenses	Depre-ciation	Amorti-zation	Other operating expenses	Net impairment loss on financial assets	Other impairment losses and provisions	Income tax
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	0.1	-	-	-	-	-	0.1	-	-	-	-	-	-	-	-	-
Exchange differences [gain or (-) loss], net	3.7	-	-	-	-	-	-	3.7	-	-	-	-	-	-	-	-
Other operating income	30.3	-	-	-	-	-	-	-	30.3	-	-	-	-	-	-	-
(Other operating expenses)	(53.3)	-	-	-	-	-	-	-	-	-	-	-	(53.3)	-	-	-
Total operating income, net	**663.6**	**627.4**	**(164.4)**	**214.8**	**(39.3)**	**33.8**	**10.5**	**3.7**	**30.4**	**-**	**-**	**-**	**(53.3)**	**-**	**-**	**-**
(Administrative expenses)	(414.5)	-	(0.5)	-	(1.4)	-	-	-	-	(226.7)	-	-	(183.5)	(2.4)	-	-
(Depreciation)	(26.7)	-	-	-	-	-	-	-	-	-	(16.8)	(9.9)	-	-	-	-
(Provisions or (-) reversal of provisions)	1.6	-	-	-	-	-	-	(0.1)	-	(5.8)	-	-	-	-	7.5	-
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	(27.2)	-	-	-	-	-	-	-	-	-	-	-	-	(27.2)	-	-

in HRK million

		Statutory accounting requirements for banks in Croatia														
Croatian National Bank's Decision		**Interest income**	**Interest expense**	**Fee and commission income**	**Fee and commission expense**	**Net trading income**	**Net investment income**	**Net foreign exchange differences**	**Other operating income**	**Personnel expenses**	**Depre-ciation**	**Amorti-zation**	**Other operating expenses**	**Net impairment loss on financial assets**	**Other impairment losses and provisions**	**Income tax**
(Impairment or (-) reversal of impairment on non-financial assets)	(8.6)	-	-	-	-	-	-	-	-	-	-	-	-	-	(8.6)	-
Profit or (-) loss before tax from continuing operations	**188.2**	**627.4**	**(164.9)**	**214.8**	**(40.7)**	**33.8**	**10.5**	**3.6**	**30.4**	**(232.5)**	**(16.8)**	**(9.9)**	**(236.8)**	**(29.6)**	**(1.1)**	**-**
(Tax Expenses or (-) income related to profit or loss from continuing operations)	(17.3)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(17.3)
Profit or (-) loss after tax from continuing operations	**170.9**	**627.4**	**(164.9)**	**214.8**	**(40.7)**	**33.8**	**10.5**	**3.6**	**30.4**	**(232.5)**	**(16.8)**	**(9.9)**	**(236.8)**	**(29.6)**	**(1.1)**	**(17.3)**
Profit or (-) loss for the year	**170.9**	**627.4**	**(164.9)**	**214.8**	**(40.7)**	**33.8**	**10.5**	**3.6**	**30.4**	**(232.5)**	**(16.8)**	**(9.9)**	**(236.8)**	**(29.6)**	**(1.1)**	**(17.3)**

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

in HRK million

Croatian National Bank's Decision		Statutory accounting requirements for banks in Croatia														
		Interest income	Interest expense	Fee and commission income	Fee and commission expense	Net trading income	Net investment income	Net foreign exchange differences	Other operating income	Personnel expenses	Depre-ciation	Amorti-zation	Other operating expenses	Net impairment loss on financial assets	Other impairment losses and provisions	Income tax
(Interest expenses)	745.7	745.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend income	(263.5)	-	(263.5)	-	-	-	-	-	-	-	-	-	-	-	-	-
Fee and commission income	0.1	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-
(Fee and commission expenses)	213.4	-	-	213.4	-	-	-	-	-	-	-	-	-	-	-	-
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	(36.1)	-	-	-	(33.9)	-	-	-	-	-	-	-	(2.2)	-	-	-
Gains or (-) losses on financial assets and liabilities held for trading, net	10.0	-	-	-	-	-	10.0	-	-	-	-	-	-	-	-	-
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	62.6	-	-	-	-	62.5	-	0.1	-	-	-	-	-	-	-	-
Exchange differences [gain or (-) loss], net	(19.9)	-	-	-	-	-	-	(19.9)	-	-	-	-	-	-	-	-

in HRK million

Croatian National Bank's Decision		Statutory accounting requirements for banks in Croatia														
		Interest income	Interest expense	Fee and commission income	Fee and commission expense	Net trading income	Net investment income	Net foreign exchange differences	Other operating income	Personnel expenses	Depre-ciation	Amorti-zation	Other operating expenses	Net impairment loss on financial assets	Other impairment losses and provisions	Income tax
Other operating income	29.8	-	0.1	-	-	-	-	-	29.7	-	-	-	-	-	-	-
(Other operating expenses)	(43.9)	(1.0)	-	-	-	-	-	-	-	-	-	-	(41.0)	(2.0)	-	-
Total operating income, net	**698.2**	**744.7**	**(263.4)**	**213.4**	**(33.9)**	**62.5**	**10.0**	**(19.8)**	**29.8**	**-**	**-**	**-**	**(43.2)**	**(2.0)**	**-**	**-**
(Administrative expenses)	(399.8)	-	(0.7)	-	(5.6)	-	-	-	-	(209.5)	-	-	(182.0)	(2.0)	-	-
(Depreciation)	(29.3)	-	-	-	-	-	-	-	-	-	(21.2)	(8.0)	-	-	-	-
(Provisions or (-) reversal of provisions)	(10.6)	-	-	-	-	-	-	-	-	(18.6)	-	-	-	-	8.0	-
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	(112.0)	-	-	-	-	-	-	-	-	-	-	-	-	(112.1)	0.1	-
(Impairment or (-) reversal of impairment on non-financial assets)	(16.2)	-	-	-	-	-	-	-	-	-	-	-	-	-	(16.2)	-
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	23.0	-	-	-	-	-	-	-	23.0	-	-	-	-	-	-	-

in HRK million

Croatian National Bank's Decision		Statutory accounting requirements for banks in Croatia														
		Interest income	Interest expense	Fee and commission income	Fee and commission expense	Net trading income	Net investment income	Net foreign exchange differences	Other operating income	Personnel expenses	Depre-ciation	Amorti-zation	Other operating expenses	Net impairment loss on financial assets	Other impairment losses and provisions	Income tax
Profit or (-) loss before tax from continuing operations	**153.3**	**744.7**	**(264.1)**	**213.4**	**(39.5)**	**62.5**	**10.0**	**(19.8)**	**52.8**	**(228.1)**	**(21.2)**	**(8.0)**	**(225.2)**	**(116.1)**	**(8.1)**	**-**
(Tax Expenses or (-) income related to profit or loss from continuing operations)	76.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	76.4
Profit or (-) loss after tax from continuing operations	**229.7**	**744.7**	**(264.1)**	**213.4**	**(39.5)**	**62.5**	**10.0**	**(19.8)**	**52.8**	**(228.1)**	**(21.2)**	**(8.0)**	**(225.2)**	**(116.1)**	**(8.1)**	**76.4**
Profit or (-) loss for the year	**229.7**	**744.7**	**(264.1)**	**213.4**	**(39.5)**	**62.5**	**10.0**	**(19.8)**	**52.8**	**(228.1)**	**(21.2)**	**(8.0)**	**(225.2)**	**(116.1)**	**(8.1)**	**76.4**

ABBREVIATIONS

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
CSEE	Central and South-eastern Europe
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CHF	Swiss Franc (currency)
CICR	Currency induced credit risk
CMO	Chief Market Officer
CNB	Croatian National Bank
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CVA	Credit valuation adjustment
EAD	Exposure at Default
EBA	European Banking Authority
EBITDA	Earnings before Interest. Tax. Depreciation and Amortization
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
ECL	Expected Credit Loss
ERM II	European Exchange Rate Mechanism II
EU	European Union
EUR	European Euro
FTE	Full-time Employee
FX	Foreign exchange
GDP	Gross domestic product
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
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
MKL	Minimum liquidity coefficient
NPE	Non-performing Exposure
NPL	Non-performing Loans
NPS	Net Promoter Score
OECD	Organization for Economic Co-operation and Development
OPEX	Operating expenses
OTC	Over-the-counter
PD	Probability of Default
PMS	Portfolio Management System
SEE	South East Europe
SME	Small and Medium Enterprises
VaR	Value at Risk
YoY	Year-on-Year

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