Annual Report 2016

Addiko Bank d.d.
Croatia

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The Management Board

Mario Žižek
Chief Executive Officer

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

Jasna Širola
Chief Market Officer & Chief Operations Officer

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

Dubravko-Ante Mlikotić
Chief Risk Officer

Responsible for:
Risk Control
Corporate Risk Management
Retail Risk Management

Ivan Jandrić
Chief Market Officer

Responsible for:
Product Management – Corporate and SME
Sales Support - Corporate and SME
Corporate Sales Network
Addiko Invest d.d.

Joško Mihić
Advisor to the Management Board

Responsible for advising in the field of:
Finances, Accounting and Treasury
HYPO ALPE-ADRIA-LEASING d.o.o. u likvidaciji
Addiko Invest d.d.

Management Board Report for the year 2016

1. Overview of Addiko Group

Addiko Bank d.d. is owned by Addiko Bank AG, Vienna, Austria and is a part of a banking group operating in five SEE countries. The Addiko Group consists of six banks in Slovenia, Bosnia and Herzegovina, Serbia, Montenegro and in Croatia, efficiently providing daily banking services for over 1.1 million clients. Since its successful rebranding in 2016, the Addiko Group operates under the Addiko brand.

As part of the only financial group exclusively focused on markets and clients in the SEE region, Addiko Bank puts local customers at the core of its strategy: promoting products and services relevant in the local economic environment, faster processes and decision and simple communication.

Al Lake (Luxembourg) S.a.r.l. is the sole shareholder of Addiko Bank AG. Al Lake is a holding company owned by Advent International, a globally active private equity investor, and European Bank for Reconstruction and Development (EBRD).

2. General economic conditions in 2016

Croatian gross domestic product increased by 3.0 percent in 2016 (early estimate), which is much stronger relative to consensus expectations at the beginning of that year. The key underlying drivers behind such performance are another record tourist season, stronger private consumption as well as investments. That being said, 2016 private consumption increased by 3.3 percent driven by tourist-related spending, increase in employment and real disposable income, lower savings rate and resurgent consumer lending dynamics. As for investments, public capex slump has been fully compensated with private capex on the back of more entrenched business optimism, stronger firms' profits as well as bank lending. Notwithstanding stellar tourist season, and also higher merchandise goods import cover, net trade likely contributed negatively to GDP growth against the background of stronger import-intensive domestic demand.

Also, strong fiscal consolidation this year implies Croatia ended 2016 with a much lower than expected deficit at slightly below 2 percent of GDP. Stronger nominal GDP growth combined with one of the strongest fiscal deficit reduction in two years in the CESEE has brought about quicker than expected stabilization in public debt, further paving the way for the sovereign rating upgrade.

At the same time, lending de-leveraging decelerated with Retail lending being the main drag on the overall lending activity, courtesy of CHF conversion and the subsequent loans stock adjustments. There are tentative signs of corporate re-leveraging in FX-adjusted terms.

Banks' interest rate fell sharply during 2016 with interest rates on both HRK and FX-loans falling to record lows as a result of further ECB/CNB easing and intensified bank competition.

It is expected that, at the end of 2016 total assets of the banking sector stay largely unchanged compared to 2015, or at about 125 percent of GDP. In 2017, Addiko Bank expects the overall lending activity to be positive on the back of low base, solid macroeconomic environment and improved labor market conditions. The main downside risks to the Bank's forecast stem from the ongoing NPL sales as majority of the banks still need to clean their balance sheets.

3. Significant events in the financial year 2016

3.1. The new Addiko brand

Following the 2015 privatization, with the new ownership structure in place and in line with the new business strategy, Addiko Group decided to start future business operations under the new Addiko brand and new visual identity.

Rebranding was one of the key strategic projects for the Addiko Group and likewise the Addiko Bank in Croatia in 2016. The new brand was launched on July 11. It was a clear and strong signal that the Bank has changed and will continue to change into the right direction: the Bank not only changed its name and logo but also implemented higher business standards and introduced more efficient banking operations.

The goal of the rebranding was to create a credible, relevant and distinctive new brand that encompasses the Bank's corporate and business values. The Addiko brand at the same time symbolizes our efforts in building a new, modern bank, with the aim of providing straightforward banking to its customers. Focusing on essentials, delivering on efficiency and communicating simplicity are the foundations on which the Bank's operations are now based.

3.2. Changes to the Management and Supervisory Board

Management Board of Addiko Bank changed entirely in 2016. Mario Žižek was appointed Chief Executive Officer (CEO) and Chief Financial Officer (CFO) and Ivan Jandrić as Chief Market Officer (CMO) for Corporate and SME as of January 1, 2016. Jasna Širola joined the Management Board as Chief Market Officer (CMO) in charge of Retail and Chief Operations Officer (COO), and Dubravko-Ante Mlikotić as Chief Risk Officer (CRO) as of March 10, 2016. Brane Golubić resigned as of March 17, 2016.

Supervisory Board member Zoran Parać resigned as at March 15, 2016. On March 1, the Board appointed Tomislav Perović as a member of the Supervisory Board.

3.3. Reorganization and Restructuring

With the new owners, the Bank established a new strategy to focus on core banking business. An integral part of the Bank's and Addiko Group's transformation process is a systematic review of the entire organization at all levels, with the goal of establishing a lean, efficient, more agile and integrated organization. Pursuing this objective, a restructuring program was launched across the entire organization in 2015, was carried out through most of 2016, and it will, to a lesser extent, continue in 2017.

During the year several initiatives had been started following corporate strategic goals that are based on revenue growth, efficient end-to-end processes and prudent standardized risk management, all of which together embody Addiko's 'One Bank Approach'.

Essential to the accomplishment of the goals is the implementation of the Target Operating Model (TOM) that will ensure better Addiko Group steering, enable synergies and efficiencies and create transparency across the organization. Additionally, with the strategy of prioritizing digital platforms and paying more attention to branch profitability, a rightsizing of the headcount of 254 FTEs, with associated costs savings of is being successfully carried out through 2016 and to smaller extent will be completed in 2017.

The new, more focused strategy of the Addiko Group foresees improvements in the core processes and all around efficient and faster operations. This required the alignment of the entire organization leading to the establishment of designated shared services, central steering and local execution functions, with several Addiko Group functions moving to the Bank in Croatia enabling utilization of synergies, greater cohesion, and ultimately ensuring a higher level of service quality within the entire Addiko organization.

Restructuring and reorganization together allow for the execution of the viable business model and achievement of a sustainable business growth.

3.4. Swiss Franc loan conversion

The year 2016 saw the implementation of several measures concerning past lending indexed in Swiss Franc which impacted Croatian economy, customers and Addiko operations. Taking appropriate measures, the Bank created very conservative but also relatively accurate provisions in 2015 already.

Through 2016, and especially in the second quarter, the Bank successfully converted nearly all Swiss Franc exposure in question.

3.5. Transfer of NPL and non-core assets to previous owner

During the first quarter of 2016, the Bank has successfully transferred NPL portfolio and non-core assets in the amount of HRK 719.6 million to the subsidiary of a previous owner, H-ABDUCO.

4. Economic development of the Bank

4.1. Straightforward banking concept

Addiko Bank's vision is to provide straightforward banking to its clients. This strategy is built upon three pillars:

- Focus on the essentials; we do few things very well, rather than a lot of things just OK. That means fewer essential products that deliver greater value to our clients;
- Deliver on efficiency; we concentrate our energy on removing the complexity for our customers and providing them with what is relevant;
- Communicate simplicity; we communicate through our people, our products and our procedures in the simplest terms to ensure they are universally understood.

By applying these brand values Addiko delivers straightforward banking to its clients.

4.2. Overview

In the financial year 2016, the Bank managed a demanding start with the operational implementation of the CHF conversion law. The Addiko Group and the Bank have developed a new Target Operating Model in order to streamline processes and to improve overall efficiency in the Addiko Group. Supported by the execution of the restructuring program and effective cost management, operational cost base has been reduced significantly.

With the successful launch of the new brand, Addiko is recognized as a reliable, credible and competitive bank on the Croatian market. Following the strategy the Bank has changed its business mix towards consumer lending as well as focused on small and mid size corporate clients.

At the same time, by strengthening the local funding base, the Bank was able to repay the refinancing lines to Addiko Group, thereby further de-risking the balance sheet and increasing profitability.

Non-performing loan (NPL) ratio decreased to below 9% driven by portfolio transfers but also due to improved collection workout processes as well as focused prudent risk taking and state-of-the-art risk management.

In summary the Bank recorded a standalone total income of HRK 759 million (2015: opposed to HRK 361.7 million). The Bank achieved a considerable turnaround in business performance and concluded the year 2016 with a positive after tax result of HRK 59.2 million (2015: HRK 2,535.7 million losses).

The 2016 results clearly reflect a positive change in business strategy and successful implementation of process and cost related activities in 2016:

- Successful finalization of the CHF loan conversion process;
- The completion of the internal restructuring process, including:
  - Staff right-sizing;
  - Cost and process optimization;
  - Fair-valuing of IT assets, resulting in one-off adjustment;
  - Establishment of Target Operating Model and competence centers;
- Sale of non-core financial assets held for sale;
- Preparation for sale of other non-core assets (Addiko Invest d.d. and HYPO ALPE-ADRIA LEASING d.o.o. u likvidaciji);
- Update and implementation of new risk-provisioning methodology (internal calculation of risk parameters based on Bank historical data).

The turnaround is also visible in key indicators, including:

- YOY growth of disbursements in the amount of HRK 2.2 billion (totaling HRK 5.8 billion in 2016);
- Management of over HRK 9.32 billion of term deposits, while decreasing the deposit costs (interest rates) by 21.65%, without decline in volumes;
- Improved Loan-to-Deposit ratio (from 94.02% in 2015 to 90.65% in 2016), improved Cost-to-Income ratio (to 72.5%, or 61.4% when normalized for one-offs), a very low NPL ratio of 8.38% and a high Total Capital Ratio of 29.91%.

These activities ensure a solid foundation for future sustainable profitability growth in the years to come.

4.3. Focus on Retail clients in 2016

Retail market segment has in 2016 concentrated its operations on consumer lending and providing key core products, with time-to-market and time-to-client being significantly improved, which lead to the desired results in higher volumes and higher margins, as well as in branch productivity with the full effects of the latter to be seen in 2017.

In 2016 the Bank disbursed HRK 620 million of new loans to retail clients, opened 11,253 new current accounts (36% YOY increase), issued 2,823 new credit cards and kept its deposits base stable, while adjusting the pricing to market trends which led to a considerable decrease of interest expenses.

The significant growth of sales, with disbursements in every single month surpassing those in year 2015, is a result of new client acquisition, increase of products used by existing clients and introduction of new more straightforward products that strongly correspond with fundamental clients' needs; consumer, consolidation, car, standard mortgage and refinancing loans, with the focus on consumer lending generating a very high 113% volume growth in non-purpose and car loans, thus surpassing initial plans.

4.4. Development of the result

The Bank's **net interest income** increased to HRK 445.2 million (2015: HRK 433.7 million), although the interest income declined due to the further reduction of the loan book influenced by the CHF conversion, the transfer of non-performing assets to the previous owner performed in the first quarter of 2016 and the strategic reduction in Public business accompanied by negative impacts from low interest rate environment. Decline in interest income was fully compensated by lowering the funding costs through repayment of refinancing lines and especially through reduction of deposit interest rates and the successful turnaround in Retail with dynamic growth in consumer lending. The positive impacts from these two measures will be visible in its entirety in business year 2017.

Net fee and commission income (after eliminating the effects of breakage fee for comparison purposes) decreased to HRK 174.7 million (2015: HRK 188.7 million) mainly due to negative impact of SEPA implementation (regulative cap on pricing of FX payments) and reduction of interchange fees by VISA and MasterCard. This coupled with reduced loan book and off-balance sheet products in Corporate and Public Finance resulted in lower income from card business and payment transactions. Initiatives to increase net commission income have already been initiated, and will be the key for improving operational performance in 2017.

The **other operating result** (including trading and financial, as well as other expenses, rebranding and CHF related costs, again for comparison purposes) increased to HRK 43.2 million (2015: HRK 1,861.2 million loss). The negative development in 2015 was mainly driven from the Swiss Franc effect (IAS39 estimate for the losses forced by conversion law). In 2016 the development is mainly driven by regular FX business with clients and prudential steering of the Bank's open FX position. Further to that, 2016 positive other operating result reflects a number of one-offs, including the reversal of CHF provision for clients electing not to convert and sale of non-core financial assets in 2016.

Administrative expenses (staff, material and services, rent and lease, marketing and other administrative expenses) declined significantly to HRK 433.1 million (2015: HRK 521 million). The lower administrative expenses were based on cost reduction initiatives encompassed by diligent steering and monitoring of all operating expenses through monthly Cost Committees. A further continuation of this trend is planned in 2017. Following a successful execution of the better part of the restructuring plan in the first six months of 2016, the key focus in 2017 is set on finalizing the implementation of Target Operating Model (TOM) with the goal of establishing a lean, efficient, more agile and integrated organization.

Depreciation and amortization of property, plant and equipment decreased to HRK 47.6 million (2015: HRK 58.5 million). The decline is mainly due to disposal of Investment properties. The Bank transferred these non-core properties back to the previous owner in the first quarter of 2016.

The positive development of loan risk provisions was driven by restructuring and disposal of the NPL portfolio and collection activities. Risk provisions were charged in the amount of HRK 103 million (2015: HRK 537.7 million).

4.5. Development of the Statement of financial position

The **total assets** of Addiko Bank standalone decreased by HRK 4.5 billion (17.6%) from HRK 25.5 billion to HRK 21.0 billion. This reduction is mainly driven by the effect of CHF regulation, sale of a portfolio of non-performing customer receivables and non-core real estate assets during the first quarter of 2016. Further to that, the Bank decided strategically not to invest in Public Finance due to very low market rates.

The **cash and cash equivalents** decreased to HRK 3,764 million (2015: HRK 3,940 million) while available-for-sale assets increased to HRK 4,009 million (2015: HRK 2,824 million) indicating a strong but more efficient liquidity position of the Bank. The development of these two positions was influenced by early repayment of refinancing lines to the Addiko Group.

At the same time loans and receivables decreased significantly to HRK 12,580 million (2015: HRK 17,234 million). The reduction in net receivables to customers was predominantly influenced by the CHF conversion law effects, followed by strategic reduction of Public Finance portfolio. In addition the decrease in net receivables was also driven by the disposal of non-performing portfolio.

Tangible assets (including property plant and equipment and repossessed assets) decreased by HRK 173 million from HRK 426 million in 2015 to HRK 253 million. This decline is mainly due to the disposal of Investment Properties in relation to the process executed in the first quarter of 2016 aimed to transfer back to the previous owner non-performing and non-core assets.

Focus on core assets in 2016 has led the Bank to sell some non-core financial assets (generating a profit on sale of HRK 64 million). With the focus on core banking business the Bank started the process of divesting from its subsidiary companies; Addiko Invest d.d., and HYPO ALPE-ADRIA LEASING d.o.o. u likvidaciji, with the aim of concluding the process in 2017. Note that all of the figures in Management's Annual Report are represented as standalone.

On the liabilities' side, the **deposits** remained very high at HRK 15,514 million (2015: HRK 15,893 million) allowing for the Bank to repay all of its refinancing lines to the Addiko Group.

5. Analysis of non-financial key performance indicators

5.1. Market and operations development

With the 2015 privatization and 2016 rebranding concluded, and with a clean portfolio, a sound funding base and strong capital, the Bank is in a good position to generate future growth with sustainable profitability.

The year 2015 was the year of the restructuring in which first steps towards a future sustainable and positive development were made. The year 2016 was the year of returning to the market, focusing on business expansion, on raising the efficiency of operations and reaffirming the Bank and the Addiko Group as a strong and stable institution in all its markets. The year 2017 will be the year in which the full turnaround will be felt on all levels.

With a clear business strategy focused on simpler portfolio of essential products, improved loan book quality reflected in an NPL ratio of 8.38% and an NPL coverage ratio of 65.49% (excl. collateral) as well as a Total Capital Ratio of 29.91%, the Bank has sound foundations for business development.

Leveraging and aligning the business models was also one of the priorities in 2016. A new organization and segmentation was implemented both in the Retail and Corporate business segments to allow a targeted coverage and dedicated products in line with the market trends and potentials. This will enable efficient operations and ensure that straightforward banking is delivered to the clients.

In 2016, Retail Banking focused on consumer lending and providing key banking products, offering faster and more convenient products and services that are relevant to the customers. Stronger sales management practices and standardized simpler products led to significantly higher volumes and more attractive margins. Through optimization of key processes, the Bank dedicated more time and resources to clients at the same time, demonstrating the substantial change initiated by the rebranding process.

New customer segmentation has been introduced to serve the customers better through adapted products and services reflecting their specific needs. New customer segmentation is based on yearly turnover, dividing legal entity clients into the following main categories: Micro, Small Business, Medium-Sized Business, Large Corporate and Public. Small and Medium-Sized Businesses together represent the primary focus for the upcoming years.

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

The focus in 2017 will be on serving the real economy, growing the client base, increasing volumes, especially in Retail and SME, enhancing cross-selling, achieving operating excellence on all levels and generating long-term sustainable and profitable business, with further diversification of the Bank's funding sources and continuation of the self-funded strategy.

5.2. Human Resources management

The Human Resources strategy underpins the cultural transformation and the Addiko strategy throughout: building strong organizational foundations within the new Target Operating Model with central steering functions and Addiko Group shared services spread across the whole organization; defining clear roles, accountabilities and simplified processes; utilizing and leveraging the shared capabilities as a platform for growing and developing the best talent in the business; attracting, developing and retaining specialist capabilities and high performers to support future growth; identifying, measuring, rewarding and recognizing high performance and talented employees, supported by an appropriate performance management framework; building all HR tools with the focus on behaviors and values Addiko Group wants to achieve in the organization; becoming an employer of choice, attracting best talents in all markets and building a great place to work which is both a positively challenging and rewarding place for employees to develop their careers. Many of the processes described above will continue in 2017.

In 2016, the primary focus of Human Resource initiatives was on: raising the business capabilities; supporting the cultural transformation focusing on delivering straightforward banking towards our Retail and Corporate/SME clients; developing the new Addiko employer brand and recruitment program; building a high performing organization through assessment and development activities; launching a comprehensive performance management system embedded into target based incentive and variable compensation schemes.

Mainly as a result of the rightsizing program which was announced in December 2015, the number of active employees decreased from 1,288 FTEs on 31 December 2015 to 1,091 FTEs on 31 December 2016.

In the next period further consolidation of resources within the Bank will be in focus, with implementation of the new operating model, which will enable Addiko Group to operate as 'One country - Six banks'.

6. Outlook

6.1. Macro-economic outlook

The Bank sees 2017 GDP growth of 3.5 percent based on stronger private consumption, better investment outlook, another record tourist season, export competitiveness gains, and newly found space for fiscal easing (after two years of substantial tightening). Private consumption is driven by personal income tax cuts, public wage, pension and minimum wage hikes, tourist consumption, employment growth, a higher foreign remittances and re-leveraging. The latter comes after a multi-year de-leveraging as seen in 15pp decline in households debt to disposable income alongside 2pp drop in interest cost to disposable income since 2009. The bank also expects stronger business optimism and capex in response to reduced policy uncertainty, price competitiveness gains out of comprehensive tax reforms and HRK 1.5 billion administrative cost cuts, faster pace of EU funding, replacement capex needs (tourist industry, exporters), stronger firms' profits (including EBITDA margins growth) and looser funding conditions. Risks are again broadly to the upside - from the record tourist season, stronger monetary easing, to extra fiscal easing into the spring local elections. Downside risks stem from external backdrop (slower EU demand, faster Fed tightening in a year with challenging redemption profile), unfavorable demographic trends and the subsequent lack of available quality labor due to high emigration, and corporate balance sheet adjustments.

Croatian National Bank (CNB) continues pursuing expansive monetary policy. First of all, the CNB opened access to long term sources of HRK liquidity for banks at an interest rate (1.8%) which is competitive to other sources of banks' HRK liquidity. However, while CNB planned to place HRK 3 to 4 billion through four structural repo auctions with maturity of four years it only managed to place HRK 993 million, courtesy of already high liquidity excess and low credit activity. Furthermore, CNB proceeded with 1W repo auctions through the course of 2016 accepting all banks bids and providing HRK liquidity but with banks relatively poor interest seen in average week placement of roughly HRK 150 million. In such circumstances banks have intensified their lending activities in local currency with roughly 85 percent of new disbursements being in HRK with increased risk aversion toward FC lending in the aftermath of Swiss franc appreciation certainly here played a role. In line with the Bank's expectations, 1W repo and 4Y structural operations reduced the level of Euro and Euro linked loans, and subsequently the exposure of the economy and consumers to foreign exchange risk, helping to stabilize exchange rate at an unusually low level. That being said, with still supportive ECB stance, solid C/A surplus and record positive banks' net foreign asset, the CNB may have room for further easing measures in 2017 in the form of mandatory-reserve cut and 4Y repo rate cut, thus boding well for the lending activity.

Multi-year process of household sector de-leveraging continued in 2016 and has been additionally underpinned by conversion of loans in Swiss franc and subsequent adjustments. However, in 2017 we expect Retail lending to finally enter green territory increasing roughly 2.5 percent supported with low base effect, but also due to ongoing improvement in labor market conditions, generally strong GDP growth and solid consumer sentiment.

Moreover, with the expected further CNB easing on the way interest rate decline is set to continue in the near term, thus boding well for lending activity in general.

Non-financial corporations continued to de-leverage but at somewhat slower pace. While we forecast a positive market performance in 2017, after five years of de-leveraging, some risks may arise for a number of market banks from the expected NPL sales, given the high share of roughly 30 percent of NPLs in corporate sector.

Lower than planned outlays, sound revenue performance, better than expected growth and low interest rate environment all resulted in improved indicators of fiscal sustainability. In such circumstances and with the expected 2016 deficit close to 2 percent of GDP (or less) Croatia is expected to exit Excessive Deficit Procedure as early as spring 2017. Meanwhile, the question remains a potential public wage unfreezing allowed with 2%+ GDP growth. Given strong GDP performance, public debt also managed to stabilize with the rating upgrade on the way. However, with public debt still on high levels the economy remains vulnerable to interest rate increases. Fortunately, given the country's falling interest rate premium and ECB prolonging quantitative easing through the course of the whole 2017, Croatian yields are set to decline further, not excluding occasional volatility in line with forthcoming risk-off events such as elections intense year around Europe and Brexit negotiations.

6.2. Addiko's strategic goals for the upcoming period

Addiko Bank has set itself the following strategic goals:

- To generate sustainable growth in Retail and SME/Corporate;
- To obtain efficiency in Core Processes and Operations; and
- To foster Intelligent Risk Management.

Furthermore, the Bank will place significant focus on Core Banking and implementation of the Target Operating Model.

Over the past five years there was a decline in lending across the entire banking industry, but in 2017 the Bank expects Retail lending on industry level to grow around 2 percent. This is supported by improving macroeconomic indicators, low base effect, and ongoing improvement in labor market conditions. Hence in 2017, the Bank will be focused on core banking business, further strengthening of the primary funds, expanding customer base across all segments, intensifying consumer lending activities that have generated well above-average volume growth.

During 2016 the Bank disposed of a part of financial assets held for sale, and in 2017 the Bank expects to exit Asset Management and Brokerage business, as well as Addiko Invest and the Leasing business.

Essential to the accomplishment of the goals is the implementation of the Target Operating Model (TOM) that will enable the creation of an organizational structure that ensures better steering and synergy efficiencies.

7. 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 management in each organizational unit is responsible for implementing Group-wide policies and procedures. Compliance with Addiko Group policies is monitored as part of the audits performed by internal auditors. The ICS, as part of the Bank's risk management system, has the following general objectives:

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

The particular objectives with regard to Bank's accounting procedures are that the ICS ensures that all business transactions are recorded immediately, correctly and in a uniform way for accounting purposes. In addition it should ensure that no errors or deliberate actions (fraud) prevent facts from adequately reflecting the company's financial position and performance. This is the case whenever the data provided in the financial statements and notes is essentially inconsistent with the correct figures, i.e. whenever, alone or in aggregate, they are apt to influence the decisions made by the users of financial statements as such a decision may incur serious damage, such as financial loss, the imposition of sanctions by the banking supervisor or reputational harm.

The Internal Control System itself is not a static system but is continuously adapted to the changing environment. The implementation of the Internal Control System is fundamentally based on the integrity and ethical behavior of the employees. The Management Board and management team actively and consciously embrace their role of leading by example.

Addiko Bank d.d. Zagreb

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

Responsibility for the Financial Statements

Pursuant to the Croatian Accounting Law in force, the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with statutory accounting requirements for banks in Croatia which give a true and fair view of the financial position and results of the Addiko Bank d.d. Zagreb ('the Bank') and its subsidiaries (together 'the Group') for the year.

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

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

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

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

These financial statements were authorized for issue by the Management Board on 27 February 2017 and were signed on its behalf as follows:

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

Independent Auditor's Report

To the Shareholders of Addiko Bank d.d. Zagreb

Report on the Audit of the Separate and Consolidated Financial Statements

Opinion

We have audited the separate and consolidated financial statements of Addiko Bank d.d. and its subsidiaries (the Group), which comprise the separate and consolidated statement of financial position as at December 31, 2016, and the separate and consolidated statement of profit or loss, the separate and consolidated statement of other comprehensive income, the separate and consolidated statement of changes in equity and the separate and consolidated statement of cash flows for the year then ended, and notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements present fairly, in all material respects, the separate and consolidated financial position of the Group as at December 31, 2016, and its separate and consolidated financial performance and its separate and consolidated cash flows for the year then ended in accordance with statutory accounting requirements for banks in Croatia.

Basis for Opinion

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

Other Information

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

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

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. With respect to the Management Report which is included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Management Report includes required disclosures as set out in the Article 21 and 24 of the Accounting Act.

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

1. Information included in the other information is, in all material respects, consistent with the attached separate and consolidated financial statements for the year,
2. Management Report for the year 2016 has been prepared, in all material respects, in accordance with Article 21 of the Accounting Act,

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

Responsibilities of Management for the Separate and Consolidated Financial Statements

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

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

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

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

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

Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Report on Other Legal and Regulatory Requirements

Pursuant to the Decision of the Croatian National Bank on the Form and Content of the Bank Annual Financial Statements (Official Gazette No 62/08, hereinafter: "the Decision") the Bank's management has prepared the forms, as presented in the Appendix to these separate and consolidated financial statements on pages 125 to 134, which comprise the separate and consolidated balance sheet as at 31 December 2016, the separate and consolidated income statement, the separate and consolidated statement of changes in equity and the separate and consolidated statement of cash flow for the year then ended, together with reconciliation to the separate and consolidated financial statements. These forms and the accompanying reconciliation to the separate and consolidated financial information are the responsibility of the Bank's management and, do not represent components of the separate and consolidated financial statements prepared in accordance with statutory accounting requirements for banks in Croatia, which are set out on pages 20 to 124, but rather a requirement specified by the Decision. The financial information provided in those forms has been derived from the separate and consolidated financial statements.

Juraj Moravek,
Member of the Management Board

Sanja Petračić,
Certified auditor

Zagreb, 28 February 2017
Deloitte d.o.o.
Radnička cesta 80, Zagreb

Consolidated Statement of Profit or Loss
For the year ended 31 December 2016

	Note	Unaudited* 2016 EUR '000	Unaudited* 2015 EUR '000	2016 HRK '000	2015 HRK '000
Interest and similar income	4	111,304	129,710	841,214	990,345
Interest expense and similar charges	5	(52,481)	(73,280)	(396,638)	(559,497)
Net interest income		**58,823**	**56,430**	**444,576**	**430,848**
Fee and commission income	6	29,130	30,992	220,162	236,623
Fee and commission expense	7	(6,293)	(27,767)	(47,559)	(212,004)
Net fee and commission income		**22,837**	**3,225**	**172,603**	**24,619**
Net trading gain/(loss)	8	24,215	(16,692)	183,010	(127,443)
Net foreign exchange differences	9	(8,662)	1,104	(65,463)	8,431
Other operating income	10	11,072	12,781	83,679	97,582
Total income		**108,285**	**56,848**	**818,405**	**434,037**
Personnel expenses	11	(32,501)	(36,250)	(245,635)	(276,772)
Depreciation	23,24	(10,055)	(12,332)	(75,995)	(94,152)
Amortization	25	(1,451)	(2,051)	(10,971)	(15,659)
Impairment losses	12	(13,871)	(81,655)	(104,832)	(623,441)
Result on conversion of CHF loans	18,30	9,125	(208,420)	68,962	(1,591,295)
Other operating expenses	13	(48,958)	(35,515)	(370,016)	(271,153)
Total expenses		**(97,711)**	**(376,223)**	**(738,487)**	**(2,872,472)**
Profit/Loss before tax		**10,574**	**(319,375)**	**79,918**	**(2,438,435)**
Income tax	14	(2,760)	(12,605)	(20,287)	(96,239)
Net profit/loss for the year		**7,814**	**(331,980)**	**59,631**	**(2,534,674)**
Attributable to:					
Owners of the Group		7,814	(331,980)	59,631	(2,534,674)

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

Notes on pages 32 to 124 form an integral part of these financial statements.

Consolidated Statement of Other Comprehensive Income

For the year ended 31 December 2016

	Unaudited* 2016 EUR '000	Unaudited* 2015 EUR '000	2016 HRK '000	2015 HRK '000
Net profit/loss for the year	**7,814**	**(331,980)**	**59,061**	**(2,534,674)**
Other comprehensive (loss)/income				
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:				
Net unrealized gain for the year	2,095	7,290	15,832	55,658
Recycled to profit or loss	(8,519)	121	(64,386)	924
Income tax	1,312	(1,482)	9,917	(11,316)
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:	**(5,112)**	**5,929**	**(38,637)**	**45,266**
Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods:				
Loss on revaluation of properties	(69)	(505)	(523)	(3,852)
Actuarial gain	-	35	-	268
Income tax	67	94	504	717
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods:	**(2)**	**(376)**	**(19)**	**(2,867)**
Total net other comprehensive (loss)/income for the year	**(5,114)**	**5,553**	**(38,656)**	**42,399**
Total comprehensive income/(loss) for the year	**2,700**	**(326,427)**	**20,405**	**(2,492,275)**
Attributable to:				
Owners of the Group	2,700	(326,427)	20,405	(2,492,275)

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

Notes on pages 32 to 124 form an integral part of these financial statements.

Signed on behalf of Addiko Bank d.d. Zagreb
on 27 February 2017

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

Consolidated Statement of Financial Position
as at 31 December 2016

	Note	Unaudited* 2016 EUR '000	Unaudited* 2015 EUR '000	2016 HRK '000	2015 HRK '000
Assets					
Cash and balances with Croatian National Bank	15	498,158	516,065	3,764,974	3,940,179
Financial assets at fair value through profit or loss, excluding derivatives	16	4,255	1,117	32,157	8,525
Derivative financial assets	37	81	4,593	614	35,068
Placements with and loans to other banks	17	14,891	88,854	112,544	678,405
Loans and receivables	18	1,622,711	2,227,388	12,264,104	17,006,213
Available for sale financial assets	19	530,524	369,917	4,009,587	2,824,335
Assets acquired in lieu of uncollected receivables	21	1,380	16,692	10,428	127,443
Investment property	23	1,181	16,631	8,929	126,977
Property, plant and equipment	24	32,052	62,437	242,244	476,711
Intangible assets	25	4,659	4,207	35,213	32,122
Non-current assets and disposal groups classified as held for sale	28	43,098	-	325,729	-
Deferred tax assets	14	5,214	6,437	39,975	49,150
Current tax assets	14	42	47	315	356
Other assets	22	18,779	22,018	141,924	168,111
Total assets		**2,777,025**	**3,336,403**	**20,988,737**	**25,473,595**

Notes on pages 32 to 124 form an integral part of these financial statements.

Consolidated Statement of Financial Position
as at 31 December 2016

	Note	Unaudited* 2016 EUR '000	Unaudited* 2015 EUR '000	2016 HRK '000	2015 HRK '000
Liabilities					
Due to other banks	26	95,016	424,797	718,109	3,243,343
Due to customers	27	2,050,663	2,077,156	15,498,471	15,859,185
Derivative financial liabilities	37	243	16,162	1,837	123,396
Provisions for liabilities and charges	29	28,873	17,559	218,214	134,063
Provision for losses on conversion of CHF loans	30	1,975	204,291	14,930	1,559,772
Liabilities included in disposal groups classified as held for sale	28	2,709	-	20,473	-
Other liabilities	31	17,340	21,779	131,048	166,285
Subordinated debt	32	238,680	238,645	1,803,896	1,822,062
Total liabilities		**2,435,499**	**3,000,389**	**18,406,978**	**22,908,106**
Equity					
Share capital	33	660,639	653,954	4,992,972	4,992,972
Share premium		7,908	7,828	59,769	59,769
Profit/(loss) for the year		7,814	(331,980)	59,631	(2,534,674)
Accumulated losses		(354,929)	(18,716)	(2,682,480)	(142,901)
Reserves	34	20,094	24,928	151,867	190,323
Total equity		**341,526**	**336,014**	**2,581,759**	**2,565,489**
Total liabilities and equity		**2,777,025**	**3,336,403**	**20,988,737**	**25,473,595**
Commitments and contingent liabilities	35	252,462	241,143	1,908,055	1,841,140

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

Notes on pages 32 to 124 form an integral part of these financial statements.

Signed on behalf of Addiko Bank d.d. Zagreb
on 27 February 2017

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

HRK'000

	Share capital	Share premium	Legal and other reserves	Revaluation reserve	Fair value reserve	Actuarial losses	Accumulated losses	Total
Balance at 1 January 2015	**4,707,972**	**59,769**	**126,851**	**19,472**	**1,816**	**(214)**	**(143,497)**	**4,772,169**
Loss for the year	-	-	-	-	-	-	(2,534,674)	(2,534,674)
Other comprehensive income/(loss) for the year, net of income tax	-	-	-	(3,082)	45,266	214	-	42,398
Total comprehensive (loss)/income for the year	*-*	*-*	*-*	*(3,082)*	*45,266*	*214*	*(2,534,674)*	*(2,492,276)*
Paid in share capital	285,000	-	-	-	-	-	-	285,000
Other changes	-	-	-	-	-	-	596	596
Balance at 31 December 2015	**4,992,972**	**59,769**	**126,851**	**16,390**	**47,082**	**-**	**(2,677,575)**	**2,565,489**
Profit for the year	-	-	-	-	-	-	59,631	59,631
Allocation of profit from 2015 to legal reserves	-	-	200	-	-	-	-	200
Other comprehensive (loss)/income for the year, net of income tax	*-*	*-*	*-*	*(19)*	*(38,637)*	*-*	*(5,291)*	*(43,947)*
Total comprehensive income/(loss) for the year	-	-	200	(19)	(38.637)	-	54,340	15,884
Other changes	-	-	-	-	-	-	386	386
Balance at 31 December 2016	**4,992,972**	**59,769**	**127,051**	**16,371**	**8,445**	**-**	**(2,622,849)**	**2,581,759**

Notes on pages 32 to 124 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

HRK'000

	Note	2016	2015
Cash flow from operating activities:			
Net profit/(loss) for the year		59,631	(2,534,674)
Adjustments for:			
Income tax recognized in statement of profit or loss		20,287	96,239
Interest expense recognized in statement of profit or loss		396,638	559,497
Interest income recognized in statement of profit or loss		(841,214)	(950,752)
Depreciation and amortization		86,966	109,811
Gain on disposal of property, plant and equipment		(3,903)	(3,491)
Fair value adjustment of financial assets at fair value through profit or loss, excluding derivatives		(764)	141
Fair value loss from derivative financial instruments		1,166	71,457
Net foreign exchange differences		67,152	(8,221)
Dividend income		(22)	-
Provisions for liabilities and charges		(1,447,628)	1,546,836
Impairment of assets		104,832	623,441
Operating cash flow before working capital movements		**(1,556,859)**	**(489,716)**
Decrease in balances with Croatian National Bank		536,049	325,233
(Increase)/decrease in placements with other banks		(35,776)	(9,730)
Decrease in loans and receivables		4,215,520	1,919,271
(Increase)/decrease in other assets		132,024	(16,769)
(Decrease)/increase in due to other banks		(2,021,587)	(587,935)
Decrease in term deposits		(1,758,249)	(505,443)
Increase in demand deposits		1,498,196	278,130
Increase/(decrease) in other liabilities		(105,142)	3,411
Interest paid		(424,838)	(564,357)
Interest received		861,540	972,803
Income taxes paid		(691)	(623)
Net cash from operating activities		**1,340,187**	**1,324,275**
Cash flows from investing activities:			
Decrease in financial assets at fair value through profit or loss		(22,577)	22,672
Decrease/(increase) in available for sale financial assets		(1,199,610)	580,389
Net cash inflow on disposal of subsidiary		-	-
Dividends received		22	-
Increase of property, plant and equipment and investment property		153,047	(87,423)
Increase of intangible assets		(14,794)	(16,012)
Net cash from investing activities		**(1,083,912)**	**499,626**
Cash flows from financing activities:			
Decrease in subordinated debt			-
Decrease in borrowings		(470,668)	(1,862,332)
Increase in share capital		-	285,000
Net cash from financing activities		**(470,668)**	**(1,577,332)**
Increase in cash and cash equivalents		**(214,393)**	**246,569**
Cash of disposed subsidiary at the beginning of the year		-	-
Cash and cash equivalents at the beginning of the year		2,823,363	2,617,476
Effects of exchange rate changes on the balance of cash held in foreign currencies		(35,781)	(40,682)
Cash and cash equivalents at the end of the year	**39**	**2,573,189**	**2,823,363**

Notes on pages 32 to 124 form an integral part of these financial statements.

Separate Statement of Profit or Loss

For the year ended 31 December 2016

	Note	Unaudited* 2016 EUR '000	Unaudited* 2015 EUR '000	2016 HRK '000	2015 HRK '000
Interest and similar income	4	111,139	129,359	839,968	987,665
Interest expense and similar charges	5	(52,499)	(72,823)	(396,777)	(556,009)
Net interest income		**58,640**	**56,536**	**443,191**	**431,656**
Fee and commission income	6	27,983	30,249	211,488	230,956
Fee and commission expense	7	(6,063)	(27,645)	(45,826)	(211,068)
Net fee and commission income		**21,920**	**2,604**	**165,662**	**19,888**
Net trading gain/(loss)	8	24,305	(16,681)	183,694	(127,363)
Net foreign exchange differences	9	(8,885)	1,106	(67,152)	8,445
Other operating income	10	4,443	3,808	33,582	29,072
Total income		**100,423**	**47,373**	**758,977**	**361,698**
Personnel expenses	11	(31,082)	(35,052)	(234,911)	(267,627)
Depreciation	23,24	(4,873)	(5,644)	(36,830)	(43,091)
Amortization	25	(1,431)	(2,013)	(10,812)	(15,371)
Impairment losses	12	(13,631)	(83,528)	(103,021)	(637,744)
Result on conversion of CHF loans	18,30	9,125	(208,420)	68,962	(1,591,295)
Other operating expenses	13	(48,027)	(34,391)	(362,980)	(262,580)
Total expenses		**(89,919)**	**(369,048)**	**(679,592)**	**(2,817,708)**
Profit/Loss before tax		**10,504**	**(321,675)**	**79,385**	**(2,456,010)**
Income tax	14	(2,668)	(10,893)	(20,166)	(83,171)
Net profit/loss for the year		**7,836**	**(332,568)**	**59,219**	**(2,539,181)**

* 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 32 to 124 form an integral part of these financial statements.

Separate Statement of Other Comprehensive Income
For the year ended 31 December 2016

	Unaudited* 2016 EUR '000	Unaudited* 2015 EUR '000	2016 HRK '000	2015 HRK '000
Net profit/loss for the year	**7,836**	**(332,568)**	**59,219**	**(2,539,181)**
Other comprehensive income				
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:				
Net unrealized gain for the year	2,095	7,290	15,832	55,658
Recycled to profit or loss	(8,519)	121	(64,386)	924
Income tax	1,312	(1,482)	9,917	(11,316)
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:	**(5,112)**	**5,929**	**(38,637)**	**45,266**
Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods:				
Loss on revaluation of properties	(69)	(505)	(523)	(3,852)
Actuarial gain	-	35	-	268
Income tax	94	127	717	971
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods:	**(2)**	**(376)**	**(19)**	**(2,867)**
Total net other comprehensive (loss)/income for the year	**(5,114)**	**5,553**	**(38,656)**	**42,399**
Total comprehensive profit/(loss) for the year	**2,722**	**(327,015)**	**20,563**	**(2,496,782)**

* 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 32 to 124 form an integral part of these financial statements.

Signed on behalf of Addiko Bank d.d. Zagreb
on 27 February 2017

Mario Žižek,
President of the
Management Board

Dubravko-Ante Mlikotić,
Member of the
Management Board

Jasna Širola,
Member of the
Management Board

Ivan Jandrić,
Member of the
Management Board

Separate Statement of Financial Position
as at 31 December 2016

	Note	Unaudited* 2016 EUR '000	Unaudited* 2015 EUR '000	2016 HRK '000	2015 HRK '000
Assets					
Cash and balances with Croatian National Bank	15	498,158	516,065	3,764,974	3,940,179
Financial assets at fair value through profit or loss, excluding derivatives	16	4,255	1,117	32,157	8,525
Derivative financial assets	37	81	4,425	614	33,787
Placements with and loans to other banks	17	14,891	88,827	112,544	678,200
Loans and receivables	18	1,664,450	2,257,211	12,579,560	17,233,911
Available for sale financial assets	19	530,524	369,917	4,009,587	2,824,335
Investments in subsidiaries	20	-	610	-	4,659
Assets acquired in lieu of uncollected receivables	21	1,380	16,692	10,428	127,443
Investment property	23	1,181	16,631	8,929	126,977
Property, plant and equipment	24	32,052	39,096	242,244	298,502
Intangible assets	25	4,659	4,168	35,213	31,820
Non-current assets and disposal groups classified as held for sale	28	1,067	-	8,063	-
Deferred tax assets	14	5,968	7,184	45,105	54,850
Current tax assets	14	42	65	315	500
Other assets	22	18,804	16,416	142,116	125,336
Total assets		**2,777,512**	**3,338,424**	**20,991,849**	**25,489,024**

Notes on pages 32 to 124 form an integral part of these financial statements.

Separate Statement of Financial Position

as at 31 December 2016

	Note	Unaudited* 2016 EUR '000	Unaudited* 2015 EUR '000	2016 HRK '000	2015 HRK '000
Liabilities					
Due to other banks	26	95,016	424,797	718,109	3,243,343
Due to customers	27	2,052,815	2,081,563	15,514,731	15,892,831
Derivative financial liabilities	37	243	16,162	1,837	123,396
Provisions for liabilities and charges	29	28,878	17,615	218,255	134,495
Provision for losses on conversion of CHF loans	30	1,975	204,291	14,930	1,559,772
Other liabilities	31	17,349	19,004	131,123	145,106
Subordinated debt	32	238,680	238,645	1,803,896	1,822,062
Total liabilities		**2,434,956**	**3,002,077**	**18,402,881**	**22,921,005**
Equity					
Share capital	33	660,639	653,954	4,992,972	4,992,972
Share premium		7,908	7,828	59,769	59,769
Profit/(loss) for the year		7,836	(332,568)	59,219	(2,539,181)
Accumulated losses		(353,756)	(17,657)	(2,673,609)	(134,814)
Reserves	34	19,929	24,790	150,617	189,273
Total equity		**342,556**	**336,347**	**2,588,968**	**2,568,019**
Total liabilities and equity		**2,777,512**	**3,338,424**	**20,991,849**	**25,489,024**
Commitments and contingent liabilities	35	253,129	252,399	1,913,096	1,927,079

* 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 32 to 124 form an integral part of these financial statements.

Signed on behalf of Addiko Bank d.d. Zagreb
on 27 February 2017

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

Separate Statement of Changes in Equity

For the year ended 31 December 2016

HRK'000

	Share capital	Share premium	Legal and other reserves	Revaluation reserve	Fair value reserve	Actuarial losses	Administrative losses	Total
Balance at 1 January 2015	**4,707,972**	**59,769**	**125,801**	**19,472**	**1,816**	**(214)**	**(135,410)**	**4,779,206**
Loss for the year	-	-	-	-	-	-	(2,539,181)	(2,539,181)
Other comprehensive income/(loss) for the year, net of income tax	-	-	-	(3,082)	45,266	214	-	42,398
Total comprehensive (loss) /income for the year	-	-	-	(3,082)	45,266	214	(2,539,181)	(2,496,783)
Paid in share capital	285,000	-	-	-	-	-	-	285,000
Other changes	-	-	-	-	-	-	596	596
Balance at 31 December 2015	**4,992,972**	**59,769**	**125,801**	**16,390**	**47,082**	**-**	**(2,673,995)**	**2,568,019**
Loss for the year	-	-	-	-	-	-	59,219	59,219
Other comprehensive (loss)/income for the year, net of income tax	-	-	-	(19)	(38,637)	-	-	(38,656)
Total comprehensive income/(loss) for the year	-	-	-	(19)	(38,637)	-	59,219	20,563
Other changes	-	-	-	-	-	-	386	386
Balance at 31 December 2016	**4,992,972**	**59,769**	**125,801**	**16,371**	**8,445**	**-**	**(2,614,390)**	**2,588,968**

Notes on pages 32 to 124 form an integral part of these financial statements.

Separate Statement of Cash Flows

For the year ended 31 December 2016

HRK'000

	Note	2016	2015
Cash flow from operating activities:			
Net profit/(loss) for the year		59,219	(2,539,181)
Adjustments for:			
Income tax recognized in statement of profit or loss		20,166	83,171
Interest expense recognized in statement of profit or loss		396,777	556,009
Interest income recognized in statement of profit or loss		(839,968)	(948,072)
Depreciation and amortization		47,642	58,462
Gain on disposal of property, plant and equipment		(3,903)	(1,863)
Fair value adjustment of financial assets at fair value through profit or loss, excluding derivatives		(764)	141
Fair value loss from derivative financial instruments		1,166	72,658
Net foreign exchange differences		67,151	(8,445)
Dividend income		(22)	-
Provisions for liabilities and charges		(1,451,150)	1,547,144
Impairment of assets		103,021	637,744
Operating cash flow before working capital movements		**(1,600,665)**	**(542,232)**
Decrease in balances with Croatian National Bank		536,049	325,233
(Increase)/decrease in placements with other banks		(35,646)	(9,594)
Decrease in loans and receivables		4,347,201	1,760,270
Decrease in other assets		99,525	15,013
(Decrease)/increase in due to other banks		(2,021,587)	(587,935)
Decrease in term deposits		(1,764,656)	(503,955)
Increase in demand deposits		1,487,218	287,042
Increase/(decrease) in other liabilities		(102,492)	13,371
Interest paid		(424,977)	(560,923)
Interest received		860,294	968,633
Income taxes paid		-	(397)
Net cash from operating activities		**1,380,264**	**1,164,526**
Cash flows from investing activities:			
Decrease in financial assets at fair value through profit or loss		(22,577)	22,672
Decrease/(increase) in available for sale financial assets		(1,199,610)	580,389
Net cash inflow on disposal of subsidiary		-	-
Increase in investments in subsidiaries		-	(3,500)
Dividends received		22	-
Increase of property, plant and equipment and investment property		112,934	(68,362)
Increase of intangible assets		(14,758)	(15,766)
Net cash from investing activities		**(1,123,989)**	**515,433**
Cash flows from financing activities:			
Decrease in subordinated debt		-	-
Decrease in borrowings		(470,668)	(1,718,390)
Increase in share capital		-	285,000
Net cash from financing activities		**(470,668)**	**(1,433,390)**
Increase in cash and cash equivalents		**(214,393)**	**246,569**
Cash and cash equivalents at the beginning of the year		2,823,363	2,617,476
Effects of exchange rate changes on the balance of cash held in foreign currencies		(35,781)	(40,682)
Cash and cash equivalents at the end of the year	**39**	**2,573,189**	**2,823,363**

Notes on pages 32 to 124 form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2016

1. GENERAL INFORMATION ABOUT THE BANK AND THE GROUP

a) History and Incorporation

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

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

The sole shareholder of Addiko Bank AG Vienna is AI Lake (Luxembourg) S.a.r.l., owned by Advent International (81.30%) and European Bank for Reconstruction and Development (18.70%) which are consequently the ultimate owners of Addiko Bank d.d. Zagreb.

During 2016 the operations were conducted through the Bank's head office located in Zagreb and through branches organized into regional centers Zagreb and Central Croatia, Dalmatia, Istria and Kvarner and Slavonia and Baranja.

The companies, which are consolidated with the Bank as at 31 December 2016 and 31 December 2015 (the Group), are presented below together with the percentage of ownership:

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

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

	2016	2015
Addiko Bank d.d., Zagreb	49,672	(2,544,607)
Addiko Invest d.d., Zagreb	3,159	1,836
HYPO ALPE-ADRIA-LEASING d.o.o. u likvidaciji, Zagreb	6,800	8,097
Total	**59,631**	**(2,534,674)**

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

	2016	2015
Addiko Bank d.d., Zagreb	(2,440,422)	128,211
Addiko Invest d.d., Zagreb	7,691	6,189
HYPO ALPE-ADRIA-LEASING d.o.o. u likvidaciji, Zagreb	(38,113)	(27,209)
Total	**(2,470,844)**	**107,191**

b) Activity
The Bank was granted a full banking license by the Croatian National Bank ("CNB") in 1996 and started its banking activities in September 1997. This license includes, but is not limited to the following activities:
- taking deposits in local and foreign currencies,
- approving loans in local and foreign currencies,
- buying and selling of local and foreign currencies,
- opening nostro accounts abroad,
- transactions with securities, precious metals and bills of exchange, in Croatia and abroad,
- performing local and international payments, and
- issuing guarantees and letters of credit to customers.

c) Members of the Supervisory Board
The members of the Supervisory Board of the Bank during the year 2016 and 2015 were as follows:

Hans-Hermann Anton Lotter	President	Appointed as at 15 October 2015
Edgar Flaggl	Member	Appointed as at 22 April 2014
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
Zoran Parać	Member	Appointed as at 28 November 2013 Resigned as at 15 March 2016
Alexander Picker	President	Appointed as at 22 April 2014 Resigned as at 30 June 2015
Rainer Maria Sichert	Deputy President	Appointed as at 22 April 2014 Resigned as at 15 October 2015
Stefan Selden	Member	Appointed as at 22 April 2014 Resigned as at 15 October 2015

d) Members of the Management Board
The members of the Management Board of the Bank during the year 2016 and 2015 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 10 March 2016
Jasna Širola	Member	Appointed as at 10 March 2016
Brane Golubić	Member	Appointed as at 1 May 2010 Resigned as at 17 March 2016
Tea Martinčić	President	Appointed as at 7 October 2014 Resigned as at 31 December 2015
Slawomir Roman Konias	Member	Appointed as at 1 August 2012 Resigned as at 31 December 2015
Joško Mihić	Member	Appointed as at 1 August 2012 End of term as at 31 December 2015

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 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 International Financial Reporting Standards.

One of them is in the collective assessment of losses for balance sheet and off-balance sheet items for which no losses are identified on an individual basis, i.e. for performing loans and certain other financial assets, and off-balance sheet liabilities classified into risk category A. For these items the regulations require that credit institution performs collective assessment of latent losses by applying its internal experience-based methodology prepared and tested in advance, where the provision shall not be less than 0.8% of the total exposure to items qualifying for such latent losses. A credit institution having no internal methodology needs to maintain the level of such value adjustments at a minimum of 1% of the total relevant exposure. The Bank has adopted the methodology for the calculation of collective impairment and provisions for latent losses.

Also, IAS 39 requires that future cash flows of a group of financial assets that are collectively evaluated for impairment should be estimated on the basis of historical loss experience for such assets with credit risk characteristics similar to those in the group and provisioning levels per these losses cannot be prescribed generally by any means.

A further difference between IFRS and the accounting regulations of the CNB relates to the determination of impairment losses by discounting the estimated cash flows of the impaired asset at the instrument's original effective interest rate. The Bank calculates impairment losses on individually significant items by estimating the future cash flows and discounting these estimated amounts at the instrument's original effective interest rate. The Bank generally recognizes the amortization of such discounts as a release of impairment allowance rather than as interest income.

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

Additionally the CNB prescribes minimum levels of impairment losses against certain specifically identified impaired exposures, which may be different from the impairment loss required to be recognized in accordance with IFRS.

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

b) Application of new and revised International Financial Reporting Standards

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

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

- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures” - Investment Entities: Applying the Consolidation Exception - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 11 “Joint Arrangements” – Accounting for Acquisitions of Interests in Joint Operations - adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1 “Presentation of Financial Statements” - Disclosure Initiative - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” - Clarification of Acceptable Methods of Depreciation and Amortization - adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” - Bearer Plants - adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 19 “Employee Benefits” - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- Amendments to IAS 27 “Separate Financial Statements” - Equity Method in Separate Financial Statements - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to various standards “Improvements to IFRSs (cycle 2010-2012)” resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- Amendments to various standards “Improvements to IFRSs (cycle 2012-2014)” resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

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

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

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

- IFRS 9 “Financial Instruments” adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018) is the IASB’s replacement of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes requirements for recognition and measurement, impairment, de-recognition and general hedge accounting.

  a) Classification and Measurement - IFRS 9 introduces new approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements under IAS 39. The new model also results in a single impairment model being applied to all financial instruments.

b) Impairment - IFRS 9 has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognized and to recognize full lifetime expected losses on a more timely basis.

- 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).

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 interpretation, which were not endorsed for use in 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 16 "Leases" (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 2 "Share-based Payment" - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- 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 IFRS 15 "Revenue from Contracts with Customers" - Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IAS 7 "Statement of Cash Flows" - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealized Losses (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 40 "Investment Property" - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- Amendments to various standards "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 (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and 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" (effective for annual periods beginning on or after 1 January 2018).

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

The Management of the Bank anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Group's financial assets. IFRS 9 implementation project is initiated and coordinated by the Addiko Bank AG.

During 2016, within the IFRS 9 Implementation Project, Bank engaged external consultants. Based on this project, the following phases are being conducted:

- Series of educations for acquainting employees with the IFRS 9 and its requirements
- Gap analysis between the current status and IFRS 9 requirements in the classification and measurement stream:
  - Determine business models
  - Determine characteristics of contracted cash flows
- Gap analysis between the current status and IFRS 9 requirements in the impairment stream
- Quantitative impact study of the IFRS 9 effects
- Development of functional specifications for the IT application solution – software implementation
- Development of the impairment methodology according to the business models of the Bank – development of the model for calculating risk parameters required for expected credit loss calculation as required per IFRS 9

For the classification and measurement stream, the Bank is considering definitions of the business models and other requirements of the IFRS 9 based on determined gaps and identified activities for bridging the gaps.

For the impairment stream, the Bank is developing the methodology for calculating expected credit loss and modeling the risk parameters with incorporation of necessary parameters for forward looking expectations.

Quantitative impacts will be identified during 2017. The impact for the impairment stream depends on defined methodology of calculating expected credit losses and risk parameters arising from them.

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 2016 to 31 December 2016 in compliance with the statutory accounting requirements for banks in Croatia.

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

The financial statements are presented in the Croatian currency, Kuna (HRK), rounded to the nearest thousand, unless stated otherwise. The financial statements for the year ended 31 December 2016 have been prepared under the historical cost convention except for financial assets and liabilities at fair value in accordance with IAS 39 “Financial Instruments: Recognition and Measurement” and revalued non-current assets. The accounting policies have been consistently applied, except where disclosed otherwise.

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

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

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, 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 in the period of revision and future periods if the revision affects both current and future periods. Judgments made by management in the application of applicable standards that have significant effects on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 3.

The accounting policies have been consistently applied by Group entities and are consistent with those applied in previous years.

d) Basis of Consolidation

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

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

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

e) Interest Income and Expense

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

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

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

f) Fee and Commission Income and Expense

Fee and commission income arises on financial services provided by the Group and mainly comprises fees receivable from domestic and foreign payment transactions, fees receivable from customers for guarantees, letters of credit, foreign currency transactions and other services provided by the Group.

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

g) Retirement Benefit Costs

The Group does not have pension arrangements separate from the state pension system of the Republic of Croatia. This system requires that current contributions by the employer be calculated as a percentage of current gross salary payments; these expenses are charged to the statement of profit or loss in the period the related compensation is earned by the employee.

No liabilities arise to the Group from the payment of pensions to employees in the future.

h) Foreign Currency Transactions

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

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

31 December 2016	1 EUR = HRK 7.557787
31 December 2016	1 CHF = HRK 7.035735
31 December 2015	1 EUR = HRK 7.635047
31 December 2015	1 CHF = HRK 7.059683

i) Financial Instruments

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

Financial Assets at Fair Value through Profit or Loss

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

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

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

Loans and Receivables

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

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

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

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

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

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

Available for Sale Financial Assets

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

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

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

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

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

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

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

j) Recognition and De-recognition of Financial Assets

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

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

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

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

k) Derivative Financial Instruments

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

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

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

l) Property, Plant and Equipment

Property, plant and equipment, except land and buildings are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes the purchase price and 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:

	2016	2015
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. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings.

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

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

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

m) Investment property

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

Investment property is measured initially at its cost, including transaction costs. Subsequently, investment property is stated at cost less accumulated depreciation and any impairment loss. Investment property is depreciated on a straight-line basis over a period of 20 to 50 years (2015: 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 (2015: 4 to 10 years).

o) Impairment of Non-Financial Assets

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

p) Leases

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

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

q) Sale and Repurchase Agreements

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

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

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

r) Provisions for Liabilities and Charges

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

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

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

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

s) Commitments and contingent liabilities

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

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

t) Taxation

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

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

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

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

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

u) Cash and Cash Equivalents for the Purpose of Cash Flow Statement

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

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

3. ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

a) Impairment losses on loans and receivables

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

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

Financial assets carried at amortized cost

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

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

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

During 2015 the Bank has conducted a detailed analysis for residential real estate’s. Results from this analysis indicated that there is a difference in the market demand on different geographical areas, and therefore these deviations were included within updated haircut values.

Additionally, in the last quarter of 2015, the Bank has aligned with the latest EBA consultation papers which refers to the definition of default under Art.178 of Regulation (EU) 575/2013 and counting the days past due.

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

b) Impairment of available-for-sale equity investments

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

c) Classification of lease contracts

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

d) Fair value of financial instruments

Fair values of financial instruments that are traded in active markets are based on quoted market prices. For all other financial instruments the Group determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads, bond and equity prices, foreign currency exchange rates, equity index prices as well as volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

When measuring fair values the Group takes into account the IFRS 13 fair value hierarchy that reflects the significance of the inputs used in making the measurements. Each instrument is evaluated in detail on a separate basis. The levels are determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

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

- Level 1 – Instruments where the fair value can be determined directly from prices quoted in active, liquid markets.
- Level 2 – Instruments valued with valuation techniques using observable market data. These are instruments where the fair value can be determined by reference to similar instruments trading in active markets, or where a technique is used to derive the valuation but where all inputs to that technique are observable.
- Level 3 – Instruments valued using 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 technique must be employed. Instruments classified in this category have an element which is unobservable and which has a significant impact on the fair value.

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

Fixed Income Securities

Fixed Income Securities are priced in a two tier process depending on the liquidity in the respective market. Liquid instruments in active markets are marked to market and consequently positions in these instruments are disclosed under Level 1.

OTC Derivatives

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

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

Equity Instruments

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

Investment Funds

The Group holds investments in certain investment funds that calculate net asset value (“NAV”) per share, and since NAV prices used for daily revaluation are observable they are disclosed as Level 2.

e) Taxation

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

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

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

f) Regulatory requirements

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

g) Litigation and claims

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

h) Provisions for Liabilities and Charges

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

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

i) Provisions for employee benefits

The Group provides for the employee benefits based on performance and decisions made on Addiko Bank AG level.

j) Fair value of land and buildings

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

4. INTEREST AND SIMILAR INCOME

a) by type of customer

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Interest charged to individuals	436,509	462,707	436,509	462,707
Interest charged to companies	240,713	338,415	244,123	317,540
Interest charged to public sector	122,542	159,281	122,542	159,281
Interest charged to non-residents	33,650	19,949	15,913	19,949
Interest charged to financial institutions	6,532	8,385	19,613	26,580
Interest charged to non-profit institutions	1,268	1,608	1,268	1,608
Total	**841,214**	**990,345**	**839,968**	**987,665**

b) by type of product

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Loans and receivables	805,968	955,054	804,722	952,374
Derivative financial instruments	2,792	15,466	2,792	15,466
Debt securities	26,248	15,390	26,248	15,390
Placements with and loans to other banks	2,877	2,511	2,877	2,511
Reverse repo agreements	453	441	453	441
Other	2,876	1,483	2,876	1,483
Total	**841,214**	**990,345**	**839,968**	**987,665**

Interest income of the Group includes the amount of HRK 55,427 thousand (2015: HRK 56,912 thousand) of collected interest on impaired financial assets.

5. INTEREST EXPENSE AND SIMILAR CHARGES

a) by type of customer

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Interest charged by individuals	198,400	262,247	198,400	262,247
Interest charged by non-residents	137,389	222,716	137,389	219,029
Interest charged by financial institutions	36,645	37,214	36,784	37,413
Interest charged by companies	20,901	31,556	20,901	31,556
Interest charged by public sector	1,732	3,535	1,732	3,535
Interest charged by non-profit institutions	1,571	2,229	1,571	2,229
Total	**396,638**	**559,497**	**396,777**	**556,009**

b) by type of product

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Due to customers	250,431	336,767	250,570	336,966
Subordinated debt	92,287	117,797	92,287	117,797
Due to other banks	37,708	82,671	37,708	78,984
Repo agreements	4,249	13,097	4,249	13,097
Derivative financial instruments	1,318	7,071	1,318	7,071
Other	10,645	2,094	10,645	2,094
Total	**396,638**	**559,497**	**396,777**	**556,009**

6. FEE AND COMMISSION INCOME

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Fees from services to companies	77,184	89,784	77,111	89,644
Fees from services to individuals	93,642	94,199	93,642	94,199
Fees from financial institutions	36,822	40,084	28,221	34,557
Fees from services to non-residents	8,747	8,715	8,747	8,715
Fees from public sector	1,371	1,558	1,371	1,558
Fees from non-profit institutions	2,396	2,283	2,396	2,283
Total	**220,162**	**236,623**	**211,488**	**230,956**

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

7. FEE AND COMMISSION EXPENSE

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Commissions for services of non-residents	21,428	180,748	21,428	180,748
Commissions for services of FINA (clearing house)	16,683	17,322	16,181	17,156
Commissions for services of financial institutions	7,453	12,453	6,982	12,299
Commissions for services of other companies	1,995	1,481	1,235	865
Total	**47,559**	**212,004**	**45,826**	**211,068**

"Commissions for services of non-residents" includes the amount of HRK 9,051 thousand (2015: HRK 168,789 thousand) which was charged to the Bank through the process of liquidity optimization via premature refinancing lines repayment and the process of CHF loan portfolio conversion where the Bank has executed conversion of its refinancing lines from CHF to EUR with the parent bank. Costs for named repayment and conversion were charged to the Bank on the arm's length principle calculated as net present value of all future cash flows related to interest payments.

8. NET TRADING GAIN / (LOSS)

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Net gain/(loss) from trading in derivatives	68,840	(248,724)	69,120	(248,644)
Net gain from trading in foreign currencies	48,967	120,636	49,371	120,636
Net realized gains from available for sale financial assets	64,386	924	64,386	924
Net realized gain/(loss) from financial assets held for trading, excluding derivatives	53	(138)	53	(138)
Net unrealized gain/(loss) from financial assets held for trading, excluding derivatives	764	(141)	764	(141)
Total	**183,010**	**(127,443)**	**183,694**	**(127,363)**

The Bank's net trading gain in 2016 was HRK 183,694 thousand. The main driver of the positive result was prudent management of Bank's open FX position, improvement of business with clients and a sale of non-core financial asset in the amount of HRK 64,386 thousand. The above stated result has to be monitored in combination with the position Net FX differences, contained in Note 9, (HRK 67,152 thousand), producing the total trading result of HRK 116,542 thousand.

Bank's net loss from trading in derivatives in 2015 consisted of Bank's derivatives position market values and the loss recorded on embedded derivative induced by implementation of Consumer Protection Act amendment, related to fixing of CHF/HRK FX rate at the level of 6.39 for the period of one year.

As a result of CHF floor discontinuation in January 2015 the Bank closed its CHF/HRK open FX position. Named market actions resulted with positive effects on Bank's "Net gain from trading in foreign currencies" position while inducing negative effects on Bank's "Net loss from trading in derivatives" position due to the applicable accounting standard and related valuation methodology.

Named derivative positions were part of Bank's off-balance position used for funding of CHF loan portfolio.

9. NET FOREIGN EXCHANGE DIFFERENCES

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Net gain/loss from translation of monetary assets and liabilities:				
"Foreign currency clause" assets and liabilities	(125,613)	329,949	(121,841)	332,166
Foreign currency assets and liabilities	60,150	(321,518)	54,689	(323,721)
Total	**(65,463)**	**8,431**	**(67,152)**	**8,445**

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

Bank does not have fully matched currency structure of its assets and liabilities. The result is dependent on the movement of underlying FX rates throughout the year. As a result Bank has recorded net loss from revaluation of its assets and liabilities in 2016 (HRK 67,152 thousand). Mismatch of currency structure between Banks assets and liabilities is hedged through derivatives positions. As such, above stated result has to be monitored in combination with position Net gain/loss in derivatives, contained in Note 8, (HRK 69,120 thousand) through which previously stated loss is completely hedged.

Loss of HRK 9,593 thousand (2015: 54,471 thousand) included in "Net gain/loss from translation of monetary assets and liabilities with foreign currency clause" refers to the difference between CHF/HRK market FX rate and CHF/HRK fixed FX rate of 6.39 based on Government decision applied on retail and SME CHF loans installments paid starting at the end of January 2015 and ending at the end of February 2016.

10. OTHER OPERATING INCOME

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Rental income	52,170	73,739	4,037	9,127
Income from cards business	6,533	6,825	6,533	6,825
Income from sales of property	4,721	3,491	3,903	1,863
Income from real estate estimation	1,051	1,928	1,054	1,930
Income from services to Group members	7,857	368	9,334	3,536
Consultancy services income	101	158	101	158
Other income	11,246	11,073	8,620	5,633
Total	**83,679**	**97,582**	**33,582**	**29,072**

The majority of the Group's rental income is earned by HYPO ALPE-ADRIA-LEASING d.o.o. u likvidaciji from operating lease.

Other income consists mostly of expenses refund and cancelation of over accrued expenses relating to prior years.

11. PERSONNEL EXPENSES

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Net salaries	129,177	136,910	125,347	132,331
Pension insurance expenses	37,223	39,904	35,973	38,376
Contributions on salaries	33,009	34,755	31,918	33,412
Tax and surtax expenses	27,838	27,469	26,625	25,851
Other personnel expenses	2,071	6,379	1,998	6,280
Charge/(release) of provisions for employee benefits	16,317	31,355	13,050	31,377
Total	**245,635**	**276,772**	**234,911**	**267,627**

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

As at 31 December 2016 and 2015 the Group had 1,256 and 1,442 employees, respectively.

As at 31 December 2016 and 2015, the Bank had 1,233 and 1,409 employees, respectively.

12. IMPAIRMENT LOSSES

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Loans and receivables	85,418	588,420	84,347	591,721
Guarantees and other contingent liabilities	(9,270)	17,699	(9,230)	18,387
Investments in subsidiaries		-	-	11,021
Property and land	109	16,479	(56)	16,479
Intangible assets	553	-	718	-
Other equipment	26,559	304	25,407	544
Other assets	4,335	5,915	4,707	4,991
Write offs	3,305	2,453	3,305	2,430
Investment property	(610)	657	(610)	657
Placements with and loans to other banks	(4,562)	-	(4,562)	-
Assets acquired in lieu of uncollected receivables	3	-	3	-
Cash and balances with Croatian National Bank	(1,008)	(8,486)	(1,008)	(8,486)
Total	**104,832**	**623,441**	**103,021**	**637,744**

As at 31 December 2016, the Bank recognized a portfolio based allowance for impairment losses in accordance with the CNB requirements of HRK 127,378 thousand for balance sheet items which is 0.8% of items qualifying for such impairment losses (2015: HRK 164,903 thousand; 0.8%) and HRK 14,299 thousand for off-balance sheet items which is 0.8% of items qualifying for such impairment losses (2015: HRK 14,198 thousand; 0.8%). Related release of provisions for collective impairment in the statement of profit or loss for 2016 for balance sheet items was HRK 37,526 thousand (2015: HRK 19,781 thousand) and for off-balance sheet items addition was HRK 101 thousand (2015: release was HRK 8,787 thousand).

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

In 2015 impairment losses of loans and receivables are mainly driven by updated haircut values for residential real estate and the alignment with the latest EBA regulations concerning default detection and counting of days past due.

Impairment losses of other equipment in 2016 resulted from cost optimization initiatives started by Management Board.

Within the cost optimization process, based on major cost drivers, one of the main focuses was set on analysis of processes and management estimate of IT infrastructure activities and IT related assets. Result of performed analysis showed the need to recognize the substantial impairment losses on the IT related assets. Further to assessment of impairment triggers the assessment of criteria to reclassify part of the assets as assets held for sale under IFRS 5 was performed as well (see Note 28)

13. OTHER OPERATING EXPENSES

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Material expenses and services	130,525	167,940	126,311	161,021
Rental and lease charges	37,661	46,552	38,434	47,018
Saving deposits insurance premium	28,563	30,215	28,563	30,215
Marketing expenses	10,114	18,920	9,875	18,562
Other taxes and contributions	15,289	12,575	14,795	12,127
Sold and written-off assets expenses	3,202	8,609	1,726	7,926
Rebranding expenses	13,539	-	13,539	-
Provisions for restructuring expenses	18,034	7,062	18,034	7,062
Write-offs of receivables	13	15	13	15
Provisions for contractual obligations	350	37	350	37
Legal provisions	56,876	(48,155)	56,036	(48,155)
Provision for expenses related to sale of subsidiaries	22,232	-	22,232	-
Other provision	9,546	-	9,546	-
Other expenses	24,072	27,383	23,526	26,752
Total	**370,016**	**271,153**	**362,980**	**262,580**

Increase in other operating expenses is driven by the one offs clean-up, which will ensure optimized base for the future period:

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

Reduction in legal provisions in 2015 refers to the release of provision for legal dispute initiated by "Potrošač" consumer association. For more details please see Note 29.

14. INCOME TAX

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Current income tax expense	(691)	(372)	-	-
Deferred income tax	(19,596)	(95,867)	(20,166)	(83,171)
Income tax expense	**(20,287)**	**(96,239)**	**(20,166)**	**(83,171)**

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

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Net profit/(loss) before tax	**79,918**	**(2,438,435)**	**79,385**	**(2,456,010)**
Tax at the statutory rate of 20%	(15,984)	487,687	(15,877)	491,202
Tax effect of non-taxable income	359	599	346	393
Tax effect of non-deductible costs	(7,821)	(9,115)	(7,813)	(8,691)
Utilization of loss carried forward	8,795	-	8,795	-
Tax effect from change of tax rate	(5,047)	-	(5,617)	-
Not recognized deferred tax on tax losses carried forward	(589)	(457,587)	-	(458,743)
Impairment of deferred tax		(117,823)	-	(107,332)
Income tax reported in the statement of profit or loss	**(20,287)**	**(96,239)**	**(20,166)**	**(83,171)**
Effective tax rate	0%	0%	0%	0%

Current tax assets of the Group in the amount of HRK 315 thousand (2015: HRK 356 thousand) and the Bank in the amount of HRK 315 thousand (2015: HRK 500 thousand) refer to the income tax advances paid to the Ministry of Finance, net of income tax liability.

As at 31 December 2016 the Group had tax losses carried forward amounting to HRK 2,960,011 thousand (2015: HRK 3,000,626 thousand). Such tax losses may only be used by the company that incurred the loss to reduce taxable profits of the following five years after the years in which the loss was incurred.

Deferred tax asset related to unused tax losses of the Group in the amount of HRK 2,960,011 thousand as at 31 December 2016 (2015: 3,000,626 thousand) was not recognized as it was not probable that this amount of tax losses carried forward will be utilized during the period of the next 5 years.

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

HRK'000

	2016	2015
No more than 1 year	11,019	2,171
No more than 2 years	485,078	11,019
No more than 3 years	164,670	529,051
No more than 4 years	2,293,715	164,670
No more than 5 years	5,529	2,293,715
Total net tax losses carried forward not recognized as deferred tax asset	**2,960,011**	**3,000,626**

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

HRK'000

	Net deferred tax assets 2016	Recognized in total comprehensive income 2016	Net deferred tax assets 2015	Recognized in total comprehensive income 2015
Source:				
Unrealized losses on derivative financial instruments	331	(24,212)	24,543	20,192
Impairment of property and equipment	15,971	(3,258)	19,229	3,266
Deferred loan origination fees	9,416	(5,583)	14,999	(5,519)
Other provisions	10,517	8,043	2,474	1,419
Pending court actions provisions	6,628	4,310	2,318	145
Employees provisions	2,559	1,132	1,427	1,267
Unrealized losses on financial assets at fair value through profit or loss	-	(28)	28	15
Tax loss carried forward	-	-	-	(113,990)
Depreciation cost exceeding prescribed rates	-	-	-	(1,933)
Other assets impairment	-	-	-	(729)
Deferred tax in profit and loss account	**45,422**	**(19,596)**	**65,018**	**(95,867)**
Actuarial losses	-	-	-	(53)
Fair value of available for sale financial assets	(1,854)	9,916	(11,770)	(11,316)
Land and buildings revaluation	(3,593)	505	(4,098)	770
Deferred tax relating to components of other comprehensive income	**(5,447)**	**10,421**	**(15,868)**	**(10,599)**
Total deferred tax	**39,975**	**(9,175)**	**49,150**	**(106,466)**

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

HRK'000

	Net deferred tax assets 2016	Recognized in total comprehensive income 2016	Net deferred tax assets 2015	Recognized in total comprehensive income 2015
Source:				
Unrealized losses on derivative financial instruments	331	(24,212)	24,543	20,192
Impairment of property and equipment	15,971	(3,258)	19,229	3,266
Deferred loan origination fees	9,416	(5,583)	14,999	(4,347)
Investments in subsidiary impairment	5,130	(570)	5,700	2,204
Other provisions	10,517	8,043	2,474	1,419
Pending court actions provisions	6,628	4,310	2,318	145
Employees provisions	2,559	1,132	1,427	1,267
Unrealized losses on financial assets at fair value through profit or loss	-	(28)	28	15
Tax loss carried forward	-	-	-	(107,332)
Deferred tax in profit and loss account	**50,552**	**(20,166)**	**70,718**	**(83,171)**
Actuarial losses	-	-	-	(53)
Fair value of available for sale financial assets	(1,854)	9,916	(11,770)	(11,316)
Land and buildings revaluation	(3,593)	505	(4,098)	770
Deferred tax relating to components of other comprehensive income	**(5,447)**	**10,421**	**(15,868)**	**(10,599)**
Total deferred tax	**45,105**	**(9,745)**	**54,850**	**(93,770)**

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

Amount of deferred tax assets recognized in total comprehensive income in 2016 is calculated by applying tax rate of 18% which became effective from 1 January 2017. Movement in deferred tax assets resulting from change of tax rate for the Group amounts to HRK 5,047 thousand and for the Bank amounts to HRK 5,617.

15. CASH AND BALANCES WITH CROATIAN NATIONAL BANK

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Cash in hand and on CNB accounts	2,270,861	854,554	2,270,861	854,554
Nostro accounts and balances with other banks	302,328	1,363,914	302,328	1,363,914
Total cash and accounts with banks	**2,573,189**	**2,218,468**	**2,573,189**	**2,218,468**
Obligatory reserve in domestic currency	1,219,595	1,474,308	1,219,595	1,474,308
Obligatory reserve in foreign currency	-	276,221	-	276,221
Total balances with Croatian National Bank	**1,219,595**	**1,750,529**	**1,219,595**	**1,750,529**
Impairment losses	(27,810)	(28,818)	(27,810)	(28,818)
Total	**3,764,974**	**3,940,179**	**3,764,974**	**3,940,179**

The Bank calculates obligatory reserves of the Croatian National Bank in the amount of 12% (2015: 12%) of deposits, borrowings, subordinated debt and other financial obligations. At least 70% (2015: 70%) of HRK obligatory reserves and 0% (2015: 60%) of foreign currency obligatory reserves have to be held with the CNB. The remaining amount can be held in the form of other liquid receivables.

According to the CNB's decision from January 2016 obligatory reserve is deposited only in HRK. Since May 2016 banks have to deposit 2% of their obligatory reserve in foreign currency on their Payment Module account in CNB (Target2-HR).

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

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

HRK'000

	Group 2016 Unidentified	Group 2015 Unidentified	Bank 2016 Unidentified	Bank 2015 Unidentified
Impairment losses at the beginning of the year	**28,818**	**37,304**	**28,818**	**37,304**
Net releases charged during the year	(1,008)	(8,486)	(1,008)	(8,486)
Impairment losses at the end of the year	**27,810**	**28,818**	**27,810**	**28,818**

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

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Financial assets held for trading:				
Bonds issued by Republic of Croatia	32,157	8,525	32,157	8,525
Total	**32,157**	**8,525**	**32,157**	**8,525**

The bonds issued by Republic of Croatia are financial instruments issued in HRK and EUR (2015: HRK and EUR) with interest rates ranging from 2.75% to 5.38% (2015: 4.75% to 5.38%) and with maturities between 2017 and 2021 (2015: 2017 and 2019).

17. PLACEMENTS WITH AND LOANS TO OTHER BANKS

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Deposits	113,452	605,110	113.452	604,905
Loans	-	78,764	-	78,764
Impairment losses	(908)	(5,469)	(908)	(5,469)
Total	**112,544**	**678,405**	**112,544**	**678,200**

Loans as presented in the table above include loans to domestic banks and were repaid in 2016.

Deposits are with foreign banks from countries members of OECD or members of Addiko Group. Deposits in 2015 were short term deposits with maturity up to one month.

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

HRK'000

	2016 Unidentified	2015 Unidentified
Impairment losses at the beginning of the year	**5,469**	**5,469**
Net allowances charged during the year	(4.561)	-
Impairment losses at the end of the year	**908**	**5,469**

18. LOANS AND RECEIVABLES

a) By type of customer

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Individuals	6,899,449	9,331,689	6,899,449	9,322,923
Private companies and sole traders	5,092,401	6,708,965	5,410,401	6,931,438
Public sector	1,684,971	2,761,700	1,684,971	2,761,525
Non-profit institutions	22,946	28,425	22,946	27,231
Early repayments	(107,234)	(66,213)	(107,234)	(66,213)
Impairment losses	(1,328,429)	(1,758,353)	(1,330,973)	(1,742,993)
Total	**12,264,104**	**17,006,213**	**12,579,560**	**17,233,911**

Loan book decrease is mainly driven by the effect of CHF regulation (private individuals, predominantly housing loans), sale of a portfolio of non-performing customer receivables (private companies). Further to that, the Bank decided strategically not to reinvest in public sector due to very low market rates.

Loans as presented in the table above include as follows:

- As at 31 December 2016 the Bank had outstanding repurchase agreements with various corporate clients. These agreements were collateralized with bonds issued by Republic of Croatia in the total amount of HRK 67,371 thousand, treasury bills issued by Ministry of Finance in the total amount of HRK 10,525 thousand.
- As at 31 December 2015 the Bank had outstanding repurchase agreements with various corporate clients. These agreements were collateralized with bonds issued by Republic of Croatia in the total amount of HRK 16,261 thousand, treasury bills issued by Ministry of Finance in the total amount of HRK 15,860 thousand and shares of domestic companies in the total amount of HRK 40,059 thousand.
- On 9 March 2016 the net amount of HRK 482,164 thousand of assets was subject to the transaction of sale of financial assets executed with company H-ABDUCO d.o.o.

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

b) Loans to individuals by purpose

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Housing loans	4,941,573	7,344,621	4,941,573	7,344,621
Overdrafts	279,100	394,394	279,100	394,394
Car loans	116,049	167,305	116,049	167,305
Mortgage loans	148,644	167,831	148,644	167,831
Loans based on credit cards	64,604	80,192	64,604	80,192
Other loans	1,349,479	1,177,346	1,349,479	1,168,580
Total	**6,899,449**	**9,331,689**	**6,899,449**	**9,322,923**

c) By industrial sector

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Individuals	6,899,449	9,331,689	6,899,449	9,322,923
Public administration and defense	842,343	1,796,766	842,343	1,796,591
Construction	1,158,430	1,657,708	1,158,430	1,644,644
Wholesale and retail trade	1,141,249	1,637,976	1,141,249	1,609,928
Other personal service activities	596,242	692,580	596,242	640,545
Agriculture, hunting, forestry and fishing	519,027	564,777	519,027	555,659
Other manufacturing	531,915	529,433	531,915	511,552
Hotels and restaurants	388,841	487,277	388,841	481,266
Education	384,427	430,655	384,427	429,381
Manufacturing of food products and beverages	295,105	353,174	295,105	347,083
Real estate business	90,540	275,622	90,540	147,819
Manufacturing of fabricated metal products	95,508	184,994	95,508	167,137
Transport, storage and equipment	178,446	172,798	178,446	155,120
Electricity, gas and water supply	154,112	163,087	154,112	157,325
Financial intermediation	99,997	146,042	417,997	694,704
Health and social work	66,708	104,412	66,708	97,933
Manufacturing of chemicals	59,309	81,602	59,309	70,492
Manufacturing of other non-metallic mineral products	51,296	69,884	51,296	67,115
Manufacturing of wearing apparel, dressing and dying of fur	12,429	20,868	12,429	20,676
Manufacturing of other transport equipment	4,556	18,174	4,556	14,518
Other	129,838	111,261	129,838	110,706
Subtotal	*13,699,767*	*18,830,779*	*14,017,767*	*19,043,117*
Early repayments	(107,234)	(66,213)	(107,234)	(66,213)
Impairment losses	(1,328,429)	(1,758,353)	(1,330,973)	(1,742,993)
Total	**12,264,104**	**17,006,213**	**12,579,560**	**17,233,911**

Movement in impairment losses of loans and receivables:

HRK’000

	Group 2016 Specific	Group 2016 Unidentified	Group 2016 Total	Group 2015 Specific	Group 2015 Unidentified	Group 2015 Total
Impairment losses at the beginning of the year	**1,626,716**	**131,637**	**1,758,353**	**1,137,491**	**140,103**	**1,277,594**
Net allowances/(releases) charged during the year	118,984	(33,566)	85,418	596,579	(8,159)	588,420
Foreign exchange differences	(7,614)	-	(7,614)	26,273	-	26,273
Sales and write off	(460,350)	-	(460,350)	(133,453)	(307)	(133,760)
Write off related to conversion of CHF loans	(28,404)	-	(28,404)	(174)	-	(174)
Transfer to assets held for sale	(16,289)	(2,686)	(18,975)	-	-	-
Impairment losses at the end of the year	**1,233,044**	**95,385**	**1,328,429**	**1,626,716**	**131,637**	**1,758,353**

HRK’000

	Bank 2016 Specific	Bank 2016 Unidentified	Bank 2016 Total	Bank 2015 Specific	Bank 2015 Unidentified	Bank 2015 Total
Impairment losses at the beginning of the year	**1,613,217**	**129,776**	**1,742,993**	**1,120,030**	**138,596**	**1,258,626**
Net allowances/(releases) charged during the year	116,194	(31,847)	84,347	600,541	(8,820)	591,721
Foreign exchange differences	(7,614)	-	(7,614)	26,273	-	26,273
Sales and write off	(460,350)	-	(460,350)	(133,453)	-	(133,453)
Write off related to conversion of CHF loans	(28,404)	-	(28,404)	(174)	-	(174)
Impairment losses at the end of the year	**1,233,044**	**97,929**	**1,330,973**	**1,613,217**	**129,776**	**1,742,993**

19. AVAILABLE FOR SALE FINANCIAL ASSETS

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Treasury bills of foreign governments	-	1,158,573	-	1,158,573
Treasury bills of Ministry of Finance	332,252	807,285	332,252	807,285
Bonds issued by foreign governments	240,240	426,039	240,240	426,039
Bonds issued by foreign banks	1,560,203	237,350	1,560,203	237,350
Bonds issued by the government	1,674,488	69,934	1,674,488	69,934
Participations in investment funds	103,161	65,121	103,161	65,121
Equity securities	21,032	62,534	21,032	62,534
Bonds issued by domestic companies	80,196	5	80,196	5
Impairment losses	(1,985)	(2,506)	(1,985)	(2,506)
Total	**4,009,587**	**2,824,335**	**4,009,587**	**2,824,335**

Due to not favorable market conditions in public finance segment in Croatia (low yield environment - levels not acceptable from Bank's profitability point of view), coupled with Bank's overall strong liquidity position combined with international negative money markets interest rate levels (effecting negatively Bank's cash positions), Bank has fully implemented optimization strategy and increased the AFS portfolio investments that has positively resulted on Bank's performance with the moderate and acceptable impact on risk profile, while preserving the liquidity standings with the highest quality of the underlying assets.

In 2015 the treasury bills issued by foreign governments are financial instruments issued in EUR and USD by German Republic and United States of America with maturity up to one year and interest rates in the range of -0.51% to 0.50%.

The treasury bills issued by the Ministry of Finance are financial instruments in HRK with maturity up to one year and interest rates in the range from 0.87% to 1.46% (2015: from 0.43% to 1.96%).

The bonds issued by foreign governments are financial instruments issued in EUR and USD by the Republic of Serbia, Republic of Italy and Republic of Romania (2015: French Republic, Republic of Italy and Republic of Romania) with interest rates in the range from 1.08% to 4.87% (2015: 0.25% to 5.25%) and maturities from 2018 to 2021 (2015: 2016 to 2018).

The bonds issued by foreign banks are financial instruments issued in EUR and USD (2015: EUR and USD) by German, French, Canadian, Italian, Dutch, Spanish, British, and US banks (2015: German and US banks) with interest rates from 0.13% to 2.50% (2015: 0.26% to 1.50%) and maturities from 2017 to 2021 (2015: 2018 to 2020).

The bonds issued by the Government of Republic of Croatia are financial instruments issued in HRK, USD and EUR (2015: HRK and EUR) with interest rates from 2.75% to 6.75% (2015: 4.75% to 6.25%) and maturities from 2017 to 2021 (2015: 2016 to 2019).

Participations in investment funds comprise of investments in “Allianz Cash”, “Auctor Cash”, “Addiko-Cash”, “Raiffesen Eurocash”, “ZB Europlus”, “ZB Plus” and “Raiffeisen Cash” (2015: “Allianz Cash”, “Auctor Cash”, “Addiko-Cash” and “PBZ Novčani fond”) open investment funds. Equity securities comprise of investments in VISA Inc and domestic companies such as PRVI MAJ d.d., ZAGREBAČKA BURZA d.d., HROK d.o.o. and similar.

As at 31 December 2016 available for sale financial assets were not pledged as collateral.

Movements in unrealised gains from financial assets available for sale value adjustment:

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Balance as at 1st January	**47,082**	**1,816**	**47,082**	**1,816**
Total net unrealized (loss)/gain of the year	*(48,554)*	*56,582*	*(48,554)*	*56,582*
Net unrealized gain for the year	15,832	55,658	15,832	55,658
Recycled to profit or loss	(64,386)	924	(64,386)	924
Net deferred tax	9,917	(11,316)	9,917	(11,316)
Balance as at 31st December	**8,445**	**47,082**	**8,445**	**47,082**

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

HRK'000

	2016 Specific	2015 Specific
Impairment losses at the beginning of the year	**2,506**	**3,261**
Release/write-off of investment in equity securities	521	(755)
Impairment losses at the end of the year	**1,985**	**2,506**

20. INVESTMENTS IN SUBSIDIARIES

HRK'000

	Nature of business	Country of incorporation	Bank 2016	Bank 2015
Addiko Invest d.d., Zagreb	Establishing and managing investment funds	Croatia	-	4,659
HYPO ALPE-ADRIA-LEASING d.o.o. u likvidaciji, Zagreb	Leasing	Croatia	-	28,500
Impairment of investment in HYPO ALPE-ADRIA-LEASING d.o.o. u likvidaciji, Zagreb	*Leasing*	*Croatia*	-	*(28,500)*
Total			**-**	**4,659**

At 31 December 2016 and 31 December 2015 the Bank was the sole owner of subsidiaries.

Following the Addiko Bank AG's decision and the strategy to focus on core banking business but also considering the historical under-performance of leasing business, Management Board of the Bank started to analyze the divestment options for both subsidiaries and decided that the best option for divestment would be to exit the businesses. As a first step of the direction to be followed, i.e. stop the leasing business, Bank started the liquidation process of HYPO ALPE-ADRIA-LEASING d.o.o.

Based on the current development it is highly probable that the Bank will be able to exit these businesses until the end of 2017. As a consequence the assets of these subsidiaries meet the criteria to be classified as held for sale in the 2016 Financial Statements (see Note 28). In addition, according to the IFRS 5 measurement requirements, the cost to sell of the subsidiaries was recognized (see Note 29).

Due to the negative financial result of HYPO ALPE-ADRIA-LEASING d.o.o. and the need to fulfill capital regulatory requirements for leasing companies, decision was made to increase the capital for the amount of HRK 3,500 thousand which was executed by the Bank on 21 December 2015.

In 2015 the Bank performed impairment of its investment in subsidiary HYPO ALPE-ADRIA-LEASING d.o.o. which was recognized in the statement of profit or loss in the position "Impairment losses". Impairment was performed as a consequence of substantial additional loss resulted from additional impairment charged to the operating result and based on the projected recoverable amount calculated for the period 2016 to 2021.

21. ASSETS ACQUIRED IN LIEU OF UNCOLLECTED RECEIVABLES

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Land and buildings	10,431	175,402	10,431	175,402
Equipment	-	23	-	23
Impairment losses	(3)	(47,982)	(3)	(47,982)
Total	**10,428**	**127,443**	**10,428**	**127,443**

On 9 March 2016 the net amount of HRK 124,580 thousand of assets was subject to the transaction of sale of real estate and movables executed with company H-ABDUCO d.o.o.

Movement in impairment losses of assets acquired in lieu of uncollected receivables:

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Impairment losses at the beginning of the year	**47,982**	**48,376**	**47,982**	**48,376**
Additions during the year	3	-	3	-
Disposal	(47,982)	(189)	(47,982)	(189)
Transfers to investment property	-	(205)	-	(205)
Impairment losses at the end of the year	**3**	**47,982**	**3**	**47,982**

22. OTHER ASSETS

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Receivables based on card business	61,256	64,996	61,267	65,012
Receivables from customers	23,699	62,557	23,876	34,700
Inventories	1,218	34,226	1,218	2,931
Fees and commissions receivables	29,608	30,205	29,613	29,417
Receivables for VAT prepayment	965	5,187	965	5,059
Deferred expenses	5,835	5,127	5,835	4,288
Receivables for sold foreign currency	1,095	4,093	1,095	4,093
Payments for the purchase price and taxes for the property in the repossession process	2,361	2,579	2,361	2,579
Receivables from clients based on court expenses paid	1,919	1,784	1,919	1,784
Insurance receivables	1,398	1,536	1,398	1,391
Other advances	277	1,231	277	930
Receivables for sold securities	526	657	526	657
Other assets	51,951	22,715	51,951	15,862
Impairment losses	(40,184)	(68,782)	(40,185)	(43,367)
Total	**141,924**	**168,111**	**142,116**	**125,336**

Increase in Other assets sub-position in 2016 relates to funds separated to special account for settlement of transaction of buying securities which took place in 2016 but was settled in 2017.

Movement in impairment losses of other assets:

HRK'000

	Group 2016 Specific	Group 2016 Unidentified	Group 2016 Total	Group 2015 Specific	Group 2015 Unidentified	Group 2015 Total
Impairment losses at the beginning of the year	**64,052**	**4,730**	**68,782**	**71,226**	**3,424**	**74,650**
Net allowances/(releases) charged during the year	4,490	(155)	4,335	4,486	1,429	5,915
Foreign exchange differences	(31)	-	(31)	(363)	-	(363)
Sales and write off	(7,859)	-	(7,859)	(11,297)	(123)	(11,420)
Transfer to assets held for sale	(21,199)	(3,844)	(25,043)	-	-	-
Impairment losses at the end of the year	**39,453**	**731**	**40,184**	**64,052**	**4,730**	**68,782**

HRK'000

	Bank 2016 Specific	Bank 2016 Unidentified	Bank 2016 Total	Bank 2015 Specific	Bank 2015 Unidentified	Bank 2015 Total
Impairment losses at the beginning of the year	**42,527**	**840**	**43,367**	**45,820**	**3,316**	**49,136**
Net allowances/(releases) charged during the year	4,816	(108)	4,708	7,467	(2,476)	4,991
Foreign exchange differences	(31)	-	(31)	(363)	-	(363)
Sales and write off	(7,859)	-	(7,859)	(10,397)	-	(10,397)
Impairment losses at the end of the year	**39,453**	**732**	**40,185**	**42,527**	**840**	**43,367**

23. INVESTMENT PROPERTY

HRK'000

Group and Bank	Investment property
Acquisition cost	
At 1 January 2016	**160,724**
Additions	204
Revaluation	(595)
Disposals	(147,837)
Transfers from property, plant and equipment	3,511
Transfers to property, plant and equipment	(8)
At 31 December 2016	**15,999**
Accumulated depreciation	
At 1 January 2016	**7,884**
Depreciation for the year 2016	586
Disposals	(5,091)
Transfers from property, plant and equipment	113
At 31 December 2016	**3,492**
Impairment	
At 1 January 2016	**25,863**
Impairment for the year 2016	(610)
Disposals	(23,197)
Transfers from property, plant and equipment	1,522
At 31 December 2016	**3,578**
Book value	
1 January 2016	126,977
31 December 2016	**8,929**

The estimated fair value of investment property held by the Group and the Bank as at 31 December 2016 amounted to HRK 11,668 thousand. The fair value is determined by applying the income approach and is based on the estimated rental value of the properties.

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

HRK'000

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

The property rental income earned by the Group and the Bank from its investment property, all of which was leased out under operating leases, amounted to HRK 4,037 thousand (2015: 9,127 thousand) and is presented within other operating income.

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

HRK'000

Bank	Investment property
Acquisition cost	
At 1 January 2015	**106,757**
Additions	51,586
Disposals	(1,747)
Transfers from assets acquired in lieu of uncollected receivables	3,800
Transfers from property, plant and equipment	328
At 31 December 2015	**160,724**
Accumulated depreciation	
At 1 January 2015	**5,538**
Depreciation for the year 2015	2,253
Disposals	(89)
Transfers from property, plant and equipment	182
At 31 December 2015	**7,884**
Impairment	
At 1 January 2015	**25,866**
Impairment for the year 2015	657
Disposals	(865)
Transfers from property, plant and equipment	205
At 31 December 2015	**25,863**
Book value	
1 January 2015	75,353
31 December 2015	**126,977**

Information about the fair value hierarchy as at 31 December 2015 is as follows:

HRK'000

	2015 Level 1	2015 Level 2	2015 Level 3	2015 Total
Investment property	-	-	135,711	**135,711**

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

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

24. PROPERTY, PLANT AND EQUIPMENT

HRK'000

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

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

HRK'000

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

HRK'000

Group	Land and buildings	Computers and other equipment	Assets under construction	Total
Acquisition cost/revalued amount				
At 1 January 2015	**449,153**	**719,095**	**10,093**	**1,178,341**
Additions	910	109,944	3,852	114,706
Transfer from assets under construction	628	832	(1,460)	-
Revaluation	(3,256)	-	-	(3,256)
Disposals	(23,472)	(182,746)	(1,371)	(207,589)
Transfers from intangible assets	-	407	-	407
Transfers to investment property	(8)	(320)	-	(328)
At 31 December 2015	**423,955**	**647,212**	**11,114**	**1,082,281**
Accumulated depreciation				
At 1 January 2015	**139,421**	**414,292**	**-**	**553,713**
Depreciation for the year 2015	10,870	81,029	-	91,899
Disposals	(15,137)	(105,741)	-	(120,878)
Transfers from intangible assets	-	14	-	14
Transfers to investment property	-	(182)	-	(182)
At 31 December 2015	**135,154**	**389,412**	**-**	**524,566**
Impairment				
At 1 January 2015	**70,384**	**1,973**	**-**	**72,357**
Impairment for the year 2015	16,479	304	-	16,783
Disposals	(8,082)	(54)	-	(8,136)
At 31 December 2015	**78,781**	**2,223**	**-**	**81,004**
Book value				
1 January 2015	239,348	302,830	10,093	552,271
31 December 2015	**210,020**	**255,577**	**11,114**	**476,711**

Information about the fair value hierarchy as at 31 December 2015 is as follows:

HRK'000

	2015 Level 1	2015 Level 2	2015 Level 3	2015 Total
Land and buildings	-	-	210,020	**210,020**

HRK'000

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

HRK'000

Bank	Land and buildings	Computers and other equipment	Assets under construction	Total
Acquisition cost/revalued amount				
At 1 January 2015	**449,153**	**394,540**	**9,979**	**853,672**
Additions	910	13,852	3,852	18,614
Transfer from assets under construction	628	832	(1,460)	-
Revaluation	(3,256)	-	-	(3,256)
Disposals	(23,472)	(40,509)	(1,258)	(65,239)
Transfers from intangible assets	-	407	-	407
Transfers to investment property	(8)	(320)	-	(328)
At 31 December 2015	**423,955**	**368,802**	**11,113**	**803,870**
Accumulated depreciation				
At 1 January 2015	139,421	298,766	-	438,187
Depreciation for the year 2015	10,870	29,968	-	40,838
Disposals	(15,137)	(38,795)	-	(53,932)
Transfers from intangible assets	-	14	-	14
Transfers to investment property	-	(182)	-	(182)
At 31 December 2015	**135,154**	**289,771**	**-**	**424,925**
Impairment				
At 1 January 2015	**70,384**	**1,172**	**-**	**71,556**
Impairment for the year 2015	16,479	544	-	17,023
Disposals	(8,082)	(54)	-	(8,136)
At 31 December 2015	**78,781**	**1,662**	**-**	**80,443**
Book value				
1 January 2015	239,348	94,602	9,979	343,929
31 December 2015	**210,020**	**77,369**	**11,113**	**298,502**

The amount of fully depreciated Bank's property, plant and equipment at 31 December 2016 amounts to HRK 242,918 thousand (2015: HRK 236,270 thousand).

The last revaluation of Group's land and buildings was performed at the end of 2016 and was based on estimations performed by independent internal experts. Certain significant inputs were used that are not observable (Level 3 of fair value hierarchy).

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

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

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

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Acquisition cost	386,830	401,458	386,830	401,458
Accumulated depreciation	(132,999)	(131,500)	(132,999)	(131,500)
Impairment	(71,981)	(78,781)	(71,981)	(78,781)
Net book value	**181,850**	**191,177**	**181,850**	**191,177**

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

25. INTANGIBLE ASSETS

HRK'000

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

HRK'000

Group	Software	Other intangible assets	Assets under construction	Total
Acquisition cost				
At 1 January 2015	**248,463**	**1,137**	**3,825**	**253,425**
Additions	11,613	-	6,489	18,102
Transfer from assets in construction	4,820	-	(4,820)	-
Disposals	(15,116)	(375)	(778)	(16,269)
Transfers to property, plant and equipment	(408)	-	-	(408)
At 31 December 2015	**249,372**	**762**	**4,716**	**254,850**
Accumulated amortization				
At 1 January 2015	**220,535**	**1,122**	**-**	**221,657**
Amortization for the year 2015	15,649	10	-	15,659
Disposals	(14,199)	(375)	-	(14,574)
Transfers to property, plant and equipment	(14)	-	-	(14)
At 31 December 2015	**221,971**	**757**	**-**	**222,728**
Book value				
1 January 2015	27,928	15	3,825	31,768
31 December 2015	**27,401**	**5**	**4,716**	**32,122**

HRK’000

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

HRK'000

Bank	Software	Other intangible assets	Assets under construction	Total
Acquisition cost				
At 1 January 2015	**246,562**	**1,098**	**3,824**	**251,484**
Additions	11,366	-	6,489	17,855
Transfer from assets in construction	4,820	-	(4,820)	-
Disposals	(15,116)	(375)	(778)	(16,269)
Transfers to property, plant and equipment	(408)	-	-	(408)
At 31 December 2015	**247,224**	**723**	**4,715**	**252,662**
Accumulated amortization				
At 1 January 2015	**218,961**	**1,098**	**-**	**220,059**
Amortization for the year 2015	15,371	-	-	15,371
Disposals	(14,199)	(375)	-	(14,574)
Transfers to property, plant and equipment	(14)	-	-	(14)
At 31 December 2015	**220,119**	**723**	**-**	**220,842**
Book value				
1 January 2015	27,601	-	3,824	31,425
31 December 2015	**27,105**	**-**	**4,715**	**31,820**

The amount of fully amortized Bank's intangible assets at 31 December 2016 amounts to HRK 120,138 thousand (2015: HRK 117,109 thousand).

26. DUE TO OTHER BANKS

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Deposits	121,073	2,170,231	121,073	2,170,231
Borrowings	597,036	1,073,112	597,036	1,073,112
Total	**718,109**	**3,243,343**	**718,109**	**3,243,343**

In the total amount of "Due to other banks" of the Group the amount of HRK 72,503 thousand (2015: HRK 2,145,145 thousand) relates to loans and deposits from Addiko Bank AG, Vienna.

Borrowings as presented in the table above include as follows:

- As at 31 December 2016, borrowings to CBRD in the total amount of HRK 586,125;
- As at 31 December 2015, payables under repurchase agreements to foreign banks in the total amount of HRK 205,168 thousand which are collateralized with loans to the Ministry of Finance in the amount of HRK 386,244 thousand.

Contractual interest rates on borrowings as at 31 December 2016 are in the range from 0.00% to 5.12% (31 December 2015: 0.00% to 5.12%).

27. DUE TO CUSTOMERS

Demand deposits and term deposits from other customers as at 31 December are presented as follows:

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Deposits from individuals	11,127,863	11,354,608	11,127,863	11,354,608
Deposits from corporate clients	4,069,606	4,204,621	4,085,866	4,238,267
Deposits from public sector	161,541	163,807	161,541	163,807
Deposits from non-profit institutions	139,461	136,149	139,461	136,149
Total	**15,498,471**	**15,859,185**	**15,514,731**	**15,892,831**

28. ASSETS HELD FOR SALE

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Derivative financial assets	21	-	-	-
Placements with and loans to other banks	334	-	-	-
Loans and receivables	212,535	-	-	-
Investments in subsidiaries				
Addiko Invest d.d. Zagreb	-	-	*4,659*	-
HYPO ALPE-ADRIA-LEASING d.o.o. u likvidaciji, Zagreb	-	-	*28,500*	-
Impairment of investment in HYPO ALPE-ADRIA-LEASING d.o.o. u likvidaciji, Zagreb	-	-	*(28,500)*	-
Property, plant and equipment	102,333	-	3,404	-
Intangible assets	180		-	
Current tax assets	11	-	-	-
Other assets	10,315	-	-	-
Total Assets	**325,729**	**-**	**8,063**	**-**
Liabilities	20,473	-	-	-
Net carrying amount of disposal group	**305,256**	**-**	**8,063**	**-**

Assets as presented in the table above include the net amount of HRK 3,404 thousand of IT related assets classified as held for sale as a result of detailed analysis of IT infrastructure activities and IT related assets (see Note 12).

In 2016, following the new strategy to focus on core banking business Management Board of the Bank decided to exit from Asset Management and Brokerage business, as well as Addiko Invest and the Leasing business.

As a consequence the assets of both subsidiaries are classified as held for sale in the 2016 financial statements.

In parallel, liabilities of both subsidiaries amounts to HRK 20,473 thousand and are shown under position 'Liabilities included in disposal groups classified as held for sale' and mainly consists of short term liabilities towards the clients, employees and Tax administration.

29. PROVISIONS FOR LIABILITIES AND CHARGES

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Provisions for commitments and contingent liabilities	44,305	52,887	44,346	53,575
Provisions for severance (termination) payments	11,099	32,636	11,099	32,636
Legal provisions	87,345	31,565	87,345	31,309
Provisions for restructuring expenses	20,993	7,062	20,993	7,062
Provisions for other employee benefits	17,034	4,603	17,034	4,603
Provisions for sale of subsidiaries	22,232	-	22,232	-
Other provisions	15,206	5,310	15,206	5,310
Total	**218,214**	**134,063**	**218,255**	**134,495**

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

Group and the Bank provided HRK 87,345 thousand (2015: HRK 31,565 thousand) and HRK 87,345 thousand (2015: HRK 31,309 thousand) respectively 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 Group is involved as defendant. The Management does not expect additional losses for the Group.

Increase in Other provisions in 2016 relates to provision for Tax obligation in regard to ongoing second instance dispute.

Movement in provisions for liabilities and charges of the Group:

HRK'000

	Group 2016 Contingent Liabilities	Group 2016 Legal cases	Group 2016 Retirement/ termination	Group 2016 Unused vacations	Group 2016 Restructuring expenses	Group 2016 Sale of subsidiaries	Group 2016 Other provisions	Group 2016 Total
Provisions at the beginning of the year	**52,887**	**31,565**	**32,636**	**4,603**	**7,062**	**-**	**5,310**	**134,063**
Charges recognized in statement of profit or loss	18,964	64,510	10,007	18,968	20,968	22,232	9,896	165,545
Releases recognized in statement of profit or loss	(28,234)	(7,633)	(7,038)	(5,620)	(2,934)	-	-	(51,459)
Utilization	688	(1,097)	(24,506)	(917)	(4,103)	-	-	(29,935)
Provisions at the end of the year	**44,305**	**87,345**	**11,099**	**17,034**	**1,548**	**22,232**	**15,206**	**218,214**

HRK'000

	Group 2015 Contingent Liabilities	Group 2015 Legal cases	Group 2015 Retirement/ termination	Group 2015 Unused vacations	Group 2015 Restructuring expenses	Group 2015 Sale of subsidiaries	Group 2015 Other provisions	Group 2015 Total
Provisions at the beginning of the year	**35,188**	**79,809**	**5,763**	**559**	**-**	**-**	**5,273**	**126,592**
Charges recognized in statement of profit or loss	42,868	8,972	32,714	4,044	7,062	-	37	95,697
Releases recognized in statement of profit or loss	(25,169)	(57,127)	(5,403)	-	-	-	-	(87,699)
Release recognized in other comprehensive income	-	-	(268)	-	-	-	-	(268)
Utilization	-	(89)	(170)	-	-	-	-	(259)
Provisions at the end of the year	**52,887**	**31,565**	**32,636**	**4,603**	**7,062**	**-**	**5,310**	**134,063**

Due to the changes of the Consumer Credit Act and Credit Institutions Act in the year 2015, regulating conversion of CHF foreign currency and CHF foreign currency clause loans to EUR foreign currency and EUR foreign currency clause loans, new provision for expected losses was recognized on 30 September 2015 (see Note 30) and therefore provision for expected losses based on first instance appealable court ruling brought by Commercial court in Zagreb on 4 July 2013 was released.

Movement in provisions for liabilities and charges of the Bank:

HRK'000

	Bank 2016 Contingent Liabilities	Bank 2016 Legal cases	Bank 2016 Retirement/ termination	Bank 2016 Unused vacations	Bank 2016 Restructuring expenses	Bank 2016 Sale of subsidiaries	Bank 2016 Other provisions	Bank 2016 Total
Provisions at the beginning of the year	**53,575**	**31,309**	**32,636**	**4,603**	**7,062**	**-**	**5,310**	**134,495**
Charges recognized in statement of profit or loss	18,964	63,669	6,740	18,968	20,968	22,232	9,896	161,437
Releases recognized in statement of profit or loss	(28,194)	(7,633)	(7,038)	(5,620)	(2,934)	-	-	(51,418)
Utilization	-	-	(21,239)	(917)	(4,103)		-	(26,259)
Provisions at the end of the year	**44,346**	**87,345**	**11,099**	**17,034**	**1,548**	**22,232**	**15,206**	**218,255**

HRK'000

	Bank 2015 Contingent Liabilities	Bank 2015 Legal cases	Bank 2015 Retirement/ termination	Bank 2015 Unused vacations	Bank 2015 Restructuring expenses	Bank 2015 Sale of subsidiaries	Bank 2015 Other provisions	Bank 2015 Total
Provisions at the beginning of the year	**35,188**	**79,464**	**5,584**	**546**	**-**	**-**	**5,273**	**126,055**
Charges recognized in statement of profit or loss	42,868	8,972	32,714	4,057	7,062	-	37	95,710
Releases recognized in statement of profit or loss	(24,481)	(57,127)	(5,394)	-	-	-	-	(87,002)
Release recognized in other comprehensive income	-	-	(268)	-	-	-	-	(268)
Provisions at the end of the year	**53,575**	**31,309**	**32,636**	**4,603**	**7,062**	**-**	**5,310**	**134,495**

30. PROVISION FOR LOSSES ON CONVERSION OF CHF LOANS

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Provision at the beginning of the year	**1,559,772**	**-**	**1,559,772**	**-**
Charges recognized in statement of profit or loss	-	1,591,121	-	1,591,121
Releases recognized in statement of profit or loss	(97,366)	-	(97,366)	-
Net exchange rate differences	(665)	520	(665)	520
Utilization	(1,446,811)	(31,869)	(1,446,811)	(31,869)
Provision at the end of the year	**14,930**	**1,559,772**	**14,930**	**1,559,772**

On 18 September 2015, the Croatian Parliament passed the amendments to the Consumer Credit Act and to the Credit Institutions Act, regulating banks' obligation to place borrowers of CHF denominated loans in the same position they would have been if their loans were from inception denominated in EUR. The amendments came into force on 30 September 2015 regulating the principles of the conversion of CHF loans into EUR loans.

According to the amendments, Bank calculated potential losses on conversion of CHF loans and recognized them in statement of profit or loss for the year 2015.

During 2016 Bank has carried out very intense and resource demanding conversion process within which most of the CHF denominated loans were converted in EUR denominated loans according to principles defined by the law. Within the process part of the provision for losses arising from CHF conversion recognized in 2015 Financial Statements was released due to the fact that borrowers did not accept conversion. The Management believes that remaining amount of the provision is sufficient to cover the losses from CHF conversions that still need to be carried out.

Releases of provision recognized in statement of profit or loss in 2016 amounted to HRK 97,366 thousand while total Result on conversion of CHF loans in 2016 amounted to HRK 68,962 thousand. Difference in amount of HRK 28,404 represents the conversion effect on the loans for which provision for conversion loss under IAS 37 was not recognized in 2015 but the conversion was carried out in 2016 and effects are recognized directly in profit or loss (see Note 18).

31. OTHER LIABILITIES

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Liabilities to suppliers	43,687	56,605	43,687	54,964
Payables based on card business	39,836	34,836	39,836	34,836
Due to employees	17,921	19,975	17,921	19,202
Guarantee funds received	-	13,204	-	-
Payables based on securities trading	11,588	9,591	11,588	9,591
Temporary deposits made as investments in domestic companies	6,137	7,982	6,137	7,982
Unallocated foreign currency receipts	540	2,305	540	2,305
Other	11,339	21,787	11,414	16,226
Total	**131,048**	**166,285**	**131,123**	**145,106**

32. SUBORDINATED DEBT

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

Currency	Interest rate	Group 2015 Amount in Currency '000	Group 2015 Amount in HRK '000	Bank 2015 Amount in Currency '000	Bank 2015 Amount in HRK '000
EUR	7% fixed	100,000	763,505	100,000	763,505
CHF	6-month EURIBOR+2.98%	138,644	1,058,557	138,644	1,058,557
Total			**1,822,062**		**1,822,062**

Subordinated debt is to Addiko Bank AG, Vienna with maturity up to 6 years. In December 2015 one contract for subordinated debt in the amount of HRK 1,058,557 with maturity in 2016 was prolonged until 2021. Repayment of these instruments is not possible before the redemption date. 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.

33. SHARE CAPITAL

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

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

	2016 HRK '000	2016 %	2015 HRK '000	2015 %
Addiko Bank AG, Vienna	4,992,972	100.00	4,992,972	100.00
Total	**4,992,972**	**100.00**	**4,992,972**	**100.00**

The movement in the number of shares was as follows:

	2016 Shares	2016 HRK '000	2015 Shares	2015 HRK '000
Balance as at 1 January	1,248,243	4,992,972	1,176,993	4,707,972
Paid in share capital	-	-	71,250	285,000
Balance as at 31 December	**1,248,243**	**4,992,972**	**1,248,243**	**4,992,972**

At the end of 2016 Addiko Bank d.d. had 1,248,243 (2015: 1,172,691) issued ordinary shares of nominal value HRK 4,000.

Increase of 71,250 ordinary shares in the year 2015 arises from payment of additional share capital in the amount of HRK 285,000 thousand executed on 31 December 2015 by the parent bank.

At the end of 2015 Addiko Bank d.d. had 75,552 issued preference shares of nominal value HRK 4,000.

Based on the decision of the General Assembly of the Bank from December 2015, conversion of 75,552 preference shares of nominal value of HRK 4,000 into ordinary shares was executed on 5 February 2016.

Preference shares were not redeemable and were entitled to receive a discretionary 6% non-cumulative preference dividend before any dividends are declared to the ordinary shareholders and carry no voting rights.

34. RESERVES

Movement in Group reserves was as follows:

HRK'000

	Legal reserve	Revaluation reserve	Fair value reserve	Actuarial losses	Other reserves	Total
At 1 January 2015	**125,851**	**19,472**	**1,816**	**(214)**	**1,000**	**147,925**
Net unrealized gain on available for sale financial assets	-	-	57,506	-	-	57,506
Net realized gain on available for sale financial asset	-	-	(924)	-	-	(924)
Revaluation of buildings and land	-	(3,257)	-	-	-	(3,257)
Disposal of buildings and land		(158)				(158)
Release of provision for retirement	-	-	-	268	-	268
Income tax relating to components of other comprehensive income	-	771	(11,316)	(54)	-	(10,599)
Transfer to retained earnings	-	(438)	-	-	-	(438)
At 31 December 2015	**125,851**	**16,390**	**47,082**	**-**	**1,000**	**190,323**
Net unrealized gain on available for sale financial assets	-	-	15,832	-	-	15,832
Net realized loss on available for sale financial asset	-	-	(64,386)	-	-	(64,386)
Revaluation of buildings and land	-	(137)	-	-	-	(137)
Income tax relating to components of other comprehensive income	-	504	9,917	-	-	10,421
Transfer to retained earnings	-	(386)	-	-	-	(386)
Allocation of profit for 2015	200	-	-	-	-	200
At 31 December 2016	**126.051**	**16.371**	**8.445**	**-**	**1.000**	**151.867**

Movement in Bank reserves was as follows:

HRK'000

	Legal reserve	Revaluation reserve	Fair value reserve	Actuarial losses	Total
At 1 January 2015	**125,801**	**19,472**	**1,816**	**(214)**	**146,875**
Net unrealized gain on available for sale financial assets	-	-	57,506	-	57,506
Net realized gain on available for sale financial asset	-	-	(924)	-	(924)
Revaluation of buildings and land	-	(3,257)	-	-	(3,257)
Disposal of buildings and land	-	(158)	-	-	(158)
Release of provision for retirement	-	-	-	268	268
Income tax relating to components of other comprehensive income	-	771	(11,316)	(54)	(10,599)
Transfer to retained earnings	-	(438)	-	-	(438)
At 31 December 2015	**125,801**	**16,390**	**47,082**	**-**	**189,273**
Net unrealized gain on available for sale financial assets	-	-	15,832	-	15,832
Net realized loss on available for sale financial asset	-	-	(64,386)	-	(64,386)
Revaluation of buildings and land	-	(137)	-	-	(137)
Income tax relating to components of other comprehensive income	-	504	9,917	-	10,421
Transfer to retained earnings	-	(386)	-	-	(386)
At 31 December 2016	**125,801**	**16,371**	**8,445**	**-**	**150,617**

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

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

The fair value reserve includes unrealized gains or losses on changes in the fair value of financial assets available for sale, net of income tax.

Actuarial losses arise from changes in present value of defined severance payment obligation resulting from changes in actuarial assumptions.

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.

There were no distributable reserves at the end of 2016 and 2015.

35. COMMITMENTS AND CONTINGENT LIABILITIES

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Commitments and contingent liabilities				
Unutilized credit lines	1,371,241	1,229,626	1,376,282	1,315,441
Guarantees and letters of credit	536,814	611,514	536,814	611,638
Total	**1,908,055**	**1,841,140**	**1,913,096**	**1,927,079**

Provisions for liabilities and charges are presented in the Note 29.

36. LEASES

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

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Not later than 1 year	30,189	33,653	30,117	33,511
Later than 1 year but not later than 5 years	72,173	102,477	72,068	102,177
Later than 5 years	25,264	36,803	25,264	36,803
Total	**127,626**	**172,933**	**127,449**	**172,491**

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

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Not later than 1 year	28,867	51,146	831	2,875
Later than 1 year but not later than 5 years	29,730	54,520	1,225	1,891
Later than 5 years	771	1,183	771	1,077
Total	**59,368**	**106,849**	**2,827**	**5,843**

37. DERIVATIVE FINANCIAL INSTRUMENTS

HRK'000

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

HRK'000

	Group 2015	Group 2015	Group 2015	Bank 2015	Bank 2015	Bank 2015
	Notional amount	Fair value Assets	Fair value Liabilities	Notional amount	Fair value Assets	Fair value Liabilities
Derivative financial instruments held for trading						
Foreign exchange forward contracts	8,975,040	2,371	47,439	8,884,588	1,090	47,439
Foreign exchange swaps	923,330	24,549	-	923,330	24,549	-
Cross currency swaps	3,450,009	8,148	75,957	3,450,009	8,148	75,957
Total	**13,348,379**	**35,068**	**123,396**	**13,257,927**	**33,787**	**123,396**

In 2016 Bank has significantly reduced its positions in derivative financial instruments. Main reason for named decrease is finalization of conversion of the CHF loan portfolio. In the moment of CHF law coming into force Bank was confronted with open FX position which was in major part closed via embedded derivatives. As the conversion was progressing and the loans were actually converted from CHF to EUR, embedded derivatives were reduced accordingly.

38. RELATED PARTY TRANSACTIONS

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

Balances with related parties at 31 December were as follows:

HRK'000

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

HRK'000

	Group 2015	Group 2015	Group 2015	Group 2015
	Assets	Liabilities	Contingent liabilities	Collaterals received
Parent company	8,540	3,972,070	-	-
Parent group	17,722	16,514	-	-
Key management	23,427	18,238	1,533	18,646
Other	18,033	71,436	61	924
Total	**67,722**	**4,078,258**	**1,594**	**19,570**

HRK'000

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

HRK'000

	Bank 2015	Bank 2015	Bank 2015	Bank 2015
	Assets	Liabilities	Contingent liabilities	Collaterals received
Parent company	8,540	3,972,054	-	-
Parent group	17,722	16,514	-	-
Subsidiaries	583,674	34,151	85,939	-
Key management	17,464	16,968	1,299	14,074
Other	22,172	72,589	292	4,156
Total	**649,572**	**4,112,276**	**87,530**	**18,230**

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

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

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

Transactions with related parties were as follows:

HRK'000

	Group 2016	Group 2016	Group 2016	Group 2016
	Interest income	Other income	Interest expenses	Other expenses
Parent company	2,835	3,855	116,285	22,032
Parent group	92	6,660	21	1
Key management	578	75	97	95
Other	44	1,318	473	-
Total	**3,549**	**11,909**	**116,876**	**22,129**

HRK'000

	Group 2015	Group 2015	Group 2015	Group 2015
	Interest income	Other income	Interest expenses	Other expenses
Parent company	1,365	17,522	182,194	179,919
Parent group	3	7,202	2	432
Key management	577	112	493	310
Other	64	1,080	769	125
Total	**2,009**	**25,916**	**183,458**	**180,786**

HRK'000

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

HRK'000

	Bank 2015	Bank 2015	Bank 2015	Bank 2015	Bank 2015
	Interest income	Other income	Interest expenses	Rental expenses	Other expenses
Parent company	1,365	17,522	178,575	-	179,909
Parent group	3	7,202	2	-	432
Subsidiaries	18,199	3,950	200	1,628	-
Key management	422	101	459	-	310
Other	145	1,087	801	-	125
Total	**20,134**	**29,862**	**180,037**	**1,628**	**180,776**

Interest income includes mostly income from granted loans.

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

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

Other expenses include mostly expenses for data transfers, project costs and similar other expenses. The biggest amount relates to cost for premature refinancing lines repayment (see Note 7).

Key management compensation

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

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

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Salaries and other short-term benefits				
Net salaries	16.665	13,483	15,004	11,414
Tax and surtax expenses	10.016	4,126	9,290	3,394
Contributions on salaries	5.396	7,697	4,885	6,728
Pension insurance expenses	4.406	4,353	3,827	3,704
Total salaries and other short-term benefits	***36.483***	***29,659***	***33,006***	***25,240***
Termination benefits				
Net salaries	1.918	113	1,808	17
Pension insurance expenses	409	20	357	8
Tax and surtax expenses	1.667	37	1,570	13
Contributions on salaries	638	17	594	7
Total termination benefits	***4.632***	***187***	***4,329***	***45***
Total	**41.115**	**29,846**	**37,335**	**25,285**

Compensation to the Supervisory Board members for the year 2016 amounted to HRK 140 thousand (2015: HRK 315 thousand).

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:

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Cash in hand, nostros and funds on CNB accounts	2,573,189	2,218,468	2,573,189	2,218,468
Placements with and loans to other banks with original maturity up to 3 months	-	604,895	-	604,895
Total	**2,573,189**	**2,823,363**	**2,573,189**	**2,823,363**

40. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

Financial instruments at fair value through profit or loss and financial instruments available for sale are measured at fair value. Loans and receivables are measured at amortized cost less impairment.

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

The fair value of securities (financial assets at fair value through profit or loss and available for sale financial assets) is either based on available market prices, or it is based on NPV (net present value) of discounted cash flow models, so called: theoretical price. In case where there are no market prices available, the Bank estimates the fair value of security under the prescribed procedures such as using amortizing cost for debt securities or peer analysis in case comparison with similar instruments is required. The latter would then assume the market availability of comparable instruments' prices.

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

The fair value of loans and receivables is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates. That said, fair value of loans and receivables is calculated only for balance sheet items for which no impairment was booked. Namely, fair value for exposure with booked impairments is assumed to be equal to nominal net exposure of the same items. Also in this context, fair value of loans and receivables is calculated only for items which have not matured.

Fair value calculation of loans and receivables was further upgraded in 2015 in order to involve a more credible, market-oriented function with the inclusion of swap synthetic curves for discount factor definition. In this context, discount factors for each balance sheet item are mostly dependent on the market funding price and risk premium dependent on the respective client risk.

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

The following table presents the comparison of the consolidated carrying amounts and fair values as at 31 December 2016 and 31 December 2015:

HRK'000

	2016 Carrying amount	2016 Fair value	2015 Carrying amount	2015 Fair value
Loans and receivables	11,247,715	10,686,163	15,747,675	15,852,012
Due to customers	9,256,467	9,176,848	10,934,080	11,223,862

Fair value measurements recognised 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 2016 and 31 December 2015:

HRK'000

	2016 Level 1	2016 Level 2	2016 Level 3	2016 Total
Financial assets at fair value through profit or loss				
Securities held for trading	32,157	-	-	32,157
Derivative financial assets	-	614	-	614
Available for sale financial assets				
Securities available for sale	3,555,123	435,413	19,052	4,009,588
Total financial assets	**3,587,280**	**436,027**	**19,052**	**4,042,359**
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	-	(660)	(1.177)	(1.837)
Total financial liabilities	**-**	**(660)**	**(1.177)**	**(1.837)**

HRK'000

	2015 Level 1	2015 Level 2	2015 Level 3	2015 Total
Financial assets at fair value through profit or loss				
Securities held for trading	8,525	-	-	8,525
Derivative financial assets	-	33,787	1,281	35,068
Available for sale financial assets				
Securities available for sale	1,891,896	872,407	60,032	2,824,335
Total financial assets	**1,900,421**	**906,194**	**61,313**	**2,867,928**
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	-	(76,519)	(46,877)	(123,396)
Total financial liabilities	**-**	**(76,519)**	**(46,877)**	**(123,396)**

During the year 2016 and 2015 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:

HRK'000

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

HRK'000

	At 1 January 2016	Acquisition in pre-bankruptcy settlement	Total gains/(losses) recorded in profit or loss	Total gains recorded in other comprehensive income	At 31 December 2016
Available for sale financial assets:					
Equity securities	3,022	6	-	57,004	60,032
Financial assets at fair value trough profit or loss:					
Derivative financial assets	-	-	1,281	-	1,281
Total level 3 financial assets	**3,022**	**6**	**1,281**	57,004	**61,313**
Financial liabilities at fair value trough profit or loss:					
Derivative financial liabilities	-	-	(46,877)	-	(46,877)
Total level 3 financial liabilities	**-**	**-**	**(46,877)**	-	**(46,877)**

41. RISK MANAGEMENT

This note provides details of the Bank risk exposure (consolidated subsidiaries are classified as held for sale and they are excluded from the risk calculations due to the fact that they are not significantly influencing the risk figures). It describes methods used by management to identify, measure and manage risk in order to preserve Bank's and Group's capital. The main goal of the Bank is to adequately and efficiently manage all major risks, which essentially involves systematic and deliberate planning and management, as well as maintaining an acceptable level of risk and profitability.

Due to this reasons, the Bank has established a strategic risk management function, conducted by the Risk Control division. In this way, risk identification, assessment and measurement and management processes are established for major risks and unexpected events, all in order to achieve a stable and profitable business performance with the Bank's improved performance indicators and the quality of the portfolio in terms of risk and profitability.

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

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

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

Main risks that the Bank is exposed to emerge from the Bank's business activity and economic movements, and the Bank affronts them in the form of credit, market, liquidity and currency risks and operational risk.

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

Credit risk is defined as a possible loss that could occur due to non-fulfillment of a client's contractual obligations towards credit institution.

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

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

The process of identification, assessment, measurement and management of credit risk is being conducted on continuous basis and it comprises 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 and quarterly basis, through reports which present current status and movement trends in the Bank portfolio, utilization of limits and portfolio quality indicators overview, these reports enable effective risk management and efficient decision making.

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

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

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

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

- Funded credit protection
- Unfunded credit protection

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 FX.

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

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

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

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 is exposed to 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 Policy'.

41.1.3. Country risk

CCountry 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,
- Financial Lease: If a leasing taker defaults, the leased goods will become assets of the leasing company (repossessing),
- Operating Lease: The leased goods have always been assets of the leasing company,
- Objects in Bank's ownership.

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

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

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

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

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.

41.1.7. Macroeconomic risk

Macroeconomic risk is a risk of indirect loss arising from negative i.e. unfavorable change in macroeconomic variables such as inflation, GDP loss, etc. Macroeconomic risk is quantified based on the Merton model (One-Factor Merton-type model - "Gaussian copula"), which is part of the Basel framework (IRB approach). The model is based on a time series of default rates and selected macroeconomic indicators and it describes the impact of macroeconomic indicators/shocks on the default rate, portfolio's quality and finally on the Bank's 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. Credit valuation adjustment risk or "CVA"

Credit valuation adjustment risk or "CVA" means the adjustment of transactions portfolio value with the counterparty weighted by middle market value. Mentioned adjustment reflects the current market value of the counterparty's credit risk for the institution, but does not reflect the current market value of the institution's credit risk for the counterparty.

41.1.10. Counterparty risk

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

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

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

The Bank exposure to credit risk arises from loans and advances to customers and banks, the amount of credit exposure in this regard, is the book value of these assets entered in the statement of financial position. Furthermore, the Bank is exposed to credit risk for off-balance sheet items, through commitments from unused credit frames and issued guarantees.

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

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

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

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 internal accepted value more conservative than the estimated value, i.e. estimated value was decreased by certain percentage, depending on the collateral type.

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

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

Exposures and collaterals at 31 December 2016 and 31 December 2015 were as follows:

HRK'000

Type of exposure	2016 Exposure amount	2016 Collateral amount	2015 Exposure amount	2015 Collateral amount
Loans to corporate clients				
Investment loans	1,482,661	822,624	1,428,544	946,355
Working capital loans	2,210,037	487,710	3,654,932	716,598
Project finance loans	56,928	53,114	167,592	102,316
Lombard loans	24,166	24,156	25,582	25,333
Restructuring loans	460,894	343,676	874,863	602,996
Subsidized loans	139,909	116,065	170,066	129,157
Tourism financing loans	3,700	3,373	7,068	5,913
Agriculture financing loans	48,982	33,927	60,355	49,191
Loans from CBRD funds	477,827	365,442	647,325	467,644
Utilized credit lines	9,978	2,989	16,391	5,887
Other loans	2,996,092	1,305,174	5,114,714	1,565,316
Purchased receivables	1,177	79	3,823	25
Subtotal	7,912,352	3,558,328	12,171,256	4,616,731
Loans to retail clients				
Housing loans	4,910,206	3,289,119	7,279,573	4,354,604
Loans for cars purchasing	116,653	100,474	168,277	153,051
Non-purpose loans	1,314,225	249,507	1,098,831	343,433
Other loans	896,476	93,780	1,050,099	126,124
Subtotal	7,237,561	3,732,881	9,596,779	4,977,212
Card products	359,556	1,380	407,953	1,700
Guarantees	565,700	249,081	651,402	286,807
Letters of credit	3,040	1,604	6,225	3,903
Unutilized credit lines	400,743	58,397	390,009	63,414
Subtotal	***16,478,952***	***7,601,671***	***23,223,624***	***9,949,768***
Fair value exposure	4,042,383	-	2,809,679	-
Participation	4,659	-	4,659	-
Total	**20,525,994**	**7,601,671**	**26,037,962**	**9,949,768**

Types of collaterals at 31 December 2016 and 31 December 2015 considered in the analysis above were as follows:

HRK'000

	2016	2015
Real estate and land mortgages	5,712,669	7,718,216
Liens over movables	205,496	201,165
Cash deposits	279,393	342,634
Guarantees *	1,044,732	1,257,137
Insurance policies	104,097	155,506
Other collaterals	255,283	275,111
Total	**7,601,671**	**9,949,768**

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

- amount of undue exposure in total exposure – placements of risk category A for which no objective evidence for impairment is identified,
- amount of not impaired due exposure in total exposure divided in buckets of days in delay (less than 30 days, 31 to 60 days, 61 to 90 days, more than 91 days) – placement of risk category A,
- impaired exposure on individual and collective basis (partly recoverable placements – risk category B and fully irrecoverable placements – risk category C).

Placements classified into risk category A are as follows:

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

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

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

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

* Government and municipal guarantees, bank guarantees

Credit quality at 31 December 2016 was as follows:

HRK'000

Type of exposure	Neither past due nor impaired	Exposure in delay not impaired	Exposure in delay less than 30 days	Exposure in delay 31 to 60 days	Exposure in delay 61 to 90 days	Exposure in delay more than 91 days	Impaired Asset Individual/ Collective	Total exposure
Loans to corporate clients								
Investment loans	1,258,801	70,360	65,784	4,576	-	-	153,500	1,482,661
Working capital loans	1,978,870	77,853	77,362	491	-	-	153,315	2,210,037
Project finance loans	55,385	-	-	-	-	-	1,542	56,928
Lombard loans	24,166	-	-	-	-	-	-	24,166
Restructuring loans	322,887	5,752	2,620	327	2,394	411	132,255	460,894
Subsidized loans	98,246	41	16	7	18	-	41,623	139,909
Tourism financing loans	2,330	-	-	-	-	-	1,371	3,700
Agriculture financing loans	17,732	18,129	-	18,129	-	-	13,121	48,982
Loans from CBRD funds	426,813	17,516	13,695	1,035	1,146	1,640	33,499	477,827
Utilized credit lines	-	185	10	73	-	102	9,793	9,978
Other loans	2,923,465	2,663	2,034	598	-	31	69,964	2,996,092
Purchased receivables	768	239	239	-	-	-	170	1,177
Subtotal	7,109,463	192,736	161,760	25,235	3,557	2,183	610,153	7,912,352
Loans to retail clients								
Housing loans	3,855,381	112,810	73,240	22,702	12,812	4,056	942,016	4,910,206
Loans for cars purchasing	103,569	553	197	277	79	-	12,531	116,653
Non-purpose loans	1,177,765	26,910	20,120	4,563	2,227	-	109,550	1,314,225
Other loans	766,814	23,664	17,970	3,374	1,838	481	105,998	896,476
Subtotal	5,903,529	163,937	111,527	30,916	16,957	4,537	1,170,095	7,237,561
Card products	342,712	2,473	2,057	351	44	20	14,372	359,556
Guarantees	400,221	22,349	15,478	3,356	-	3,514	143,130	565,700
Letters of credit	3,036	3	3	-	-	-	-	3,040
Unutilized credit lines	368,391	25,958	19,912	6,046	-	-	6,394	400,743
Subtotal	***14,127,352***	***407,456***	***310,737***	***65,905***	***20,558***	***10,255***	***1,944,144***	***16,478,952***
Fair value exposure	4,042,383	-	-	-	-	-	-	4,042,383
Participation	4,659	-	-	-	-	-	-	4,659
Total	**18,174,395**	**407,456**	**310,737**	**65,905**	**20,558**	**10,255**	**1,944,144**	**20,525,994**

Credit quality at 31 December 2015 was as follows:

HRK'000

Type of exposure	Neither past due nor impaired	Exposure in delay not impaired	Exposure in delay less than 30 days	Exposure in delay 31 to 60 days	Exposure in delay 61 to 90 days	Exposure in delay more than 91 days	Impaired Asset Individual/ Collective	Total exposure
Loans to corporate clients								
Investment loans	1,142,861	31,619	8,384	21,282	59	1,893	254,065	1,428,544
Working capital loans	3,255,077	58,803	23,559	30,302	2,200	2,741	341,052	3,654,932
Project finance loans	98,825	811	-	811	-	-	67,957	167,592
Lombard loans	25,483	-	-	0	-	-	99	25,582
Restructuring loans	426,470	49,191	44,874	4,317	-	-	399,202	874,863
Subsidized loans	129,272	7,135	7,039	67	-	28	33,659	170,066
Tourism financing loans	2,803	-	-	-	-	-	4,266	7,068
Agriculture financing loans	45,636	568	48	520	-	-	14,151	60,355
Loans from CBRD funds	511,439	17,347	175	17,071	101	-	118,539	647,325
Utilized credit lines	1	417	62	355	0	-	15,973	16,391
Other loans	5,006,704	7,950	7,622	189	3	135	100,060	5,114,714
Purchased receivables	2,763	-	-	-	-	-	1,059	3,823
Subtotal	10,647,335	173,839	91,763	74,914	2,363	4,798	1,350,082	12,171,256
Loans to retail clients								
Housing loans	5,854,421	315,637	177,313	94,095	34,633	9,597	1,109,514	7,279,573
Loans for cars purchasing	143,753	4,060	389	2,840	321	509	20,465	168,277
Non-purpose loans	883,804	48,221	32,315	8,711	5,077	2,118	166,806	1,098,831
Other loans	836,875	47,680	31,506	11,450	3,515	1,208	165,544	1,050,099
Subtotal	7,718,853	415,597	241,522	117,097	43,546	13,432	1,462,329	9,596,779
Card products	382,493	4,098	2,922	676	451	49	21,361	407,953
Guarantees	450,416	19,927	16,510	-	20	3,396	181,060	651,402
Letters of credit	5,519	-	-	-	-	-	706	6,225
Unutilized credit lines	378,656	8,188	7,074	416	-	699	3,164	390,009
Subtotal	***19,583,271***	***589,436***	***333,286***	***192,011***	***45,909***	***18,231***	***2,812,411***	***23,223,624***
Fair value exposure	2,809,679	-	-	-	-	-	-	2,809,679
Participation	4,659	-	-	-	-	-	-	4,659
Total	**22,397,609**	**621,650**	**359,792**	**193,103**	**46,381**	**22,375**	**3,018,703**	**26,037,962**

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

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

As mentioned under the point 41.1.1., concentration risk arises from each individual, direct or indirect, exposure towards one client, or group of related parties, or group of exposures connected by common risk factors. The maximum exposure to individual client at 31 December 2016 excluding Republic of Croatia amounts to HRK 473,483 thousand (2015: HRK 682,370 thousand), without taking account of the amounts decreasing the total Bank's exposure or estimated values of collaterals obtained.

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

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

Credit risk by the type of financial assets

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

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

At 31 December 2016 in the total amount of placements classified into risk categories of HRK 23,699,896 thousand (2015: HRK 28,276,333 thousand) the amount of HRK 17,709,618 thousand (2015: HRK 22,388,843 thousand) relates to loans and receivables of category A.

41.2. Market Risk

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

All trading instruments are subject to market risk, the risk that future changes in market conditions may make an instrument less valuable or more onerous. The instruments are recognized at fair value, and all changes in 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 in accordance with risk limits approved by the Management Board.

41.2.1. Value at Risk (VaR) Analysis

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

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

The variance-covariance method is used for the calculation of VaR for interest rate risk measurement in Bank book, based on the JPMorgan 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 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 a base currency for all calculations, VaR calculation is modeled and reported via Addiko Group internal application Portfolio Management System (“PMS”) that covers Addiko Group’s exposure and monitors risk from the Addiko Group perspective.

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

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

The following table presents VaR trends of specific risk factors during the year 2015:

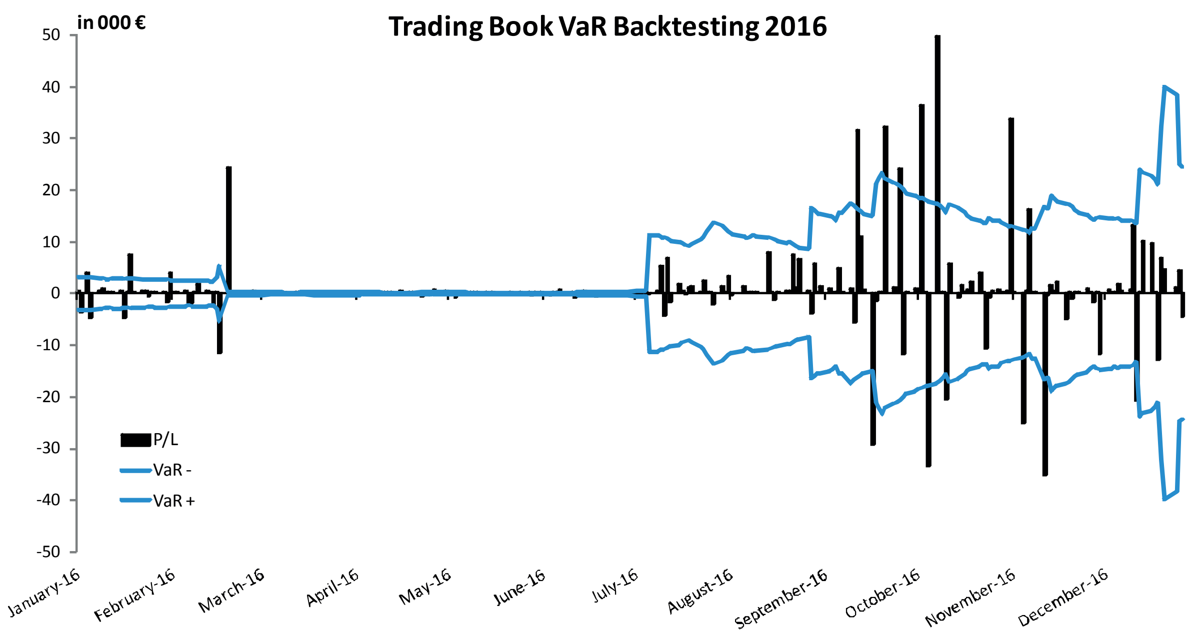
Value at Risk	HRK’000	HRK’000	HRK’000	HRK’000
Risk category	Minimum	Maximum	Average	End of year
Interest rate risk - trading book	5	106	39	21
Interest rate risk - banking book	8,017	20,956	14,985	15,756
Credit spread risk	277	829	531	488
Currency risk	196	779	513	657
Total*	**8,494**	**22,670**	**16,067**	**16,923**

* Correlation effects are not considered in the above analysis.

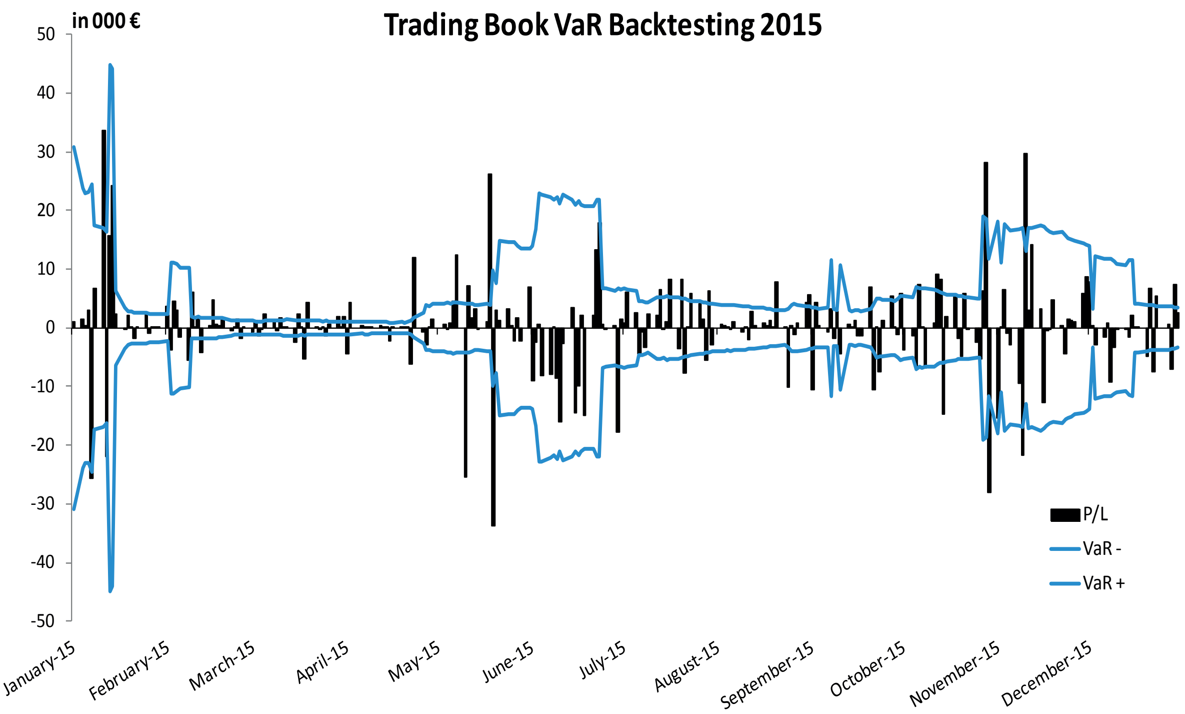
41.2.2. Back testing

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

The following graph shows back testing of VaR model in relation to daily changes of profit or loss in trading book for 2016:



Following graph shows back testing of VaR model in relation to daily changes of profit or loss in trading book for 2015:



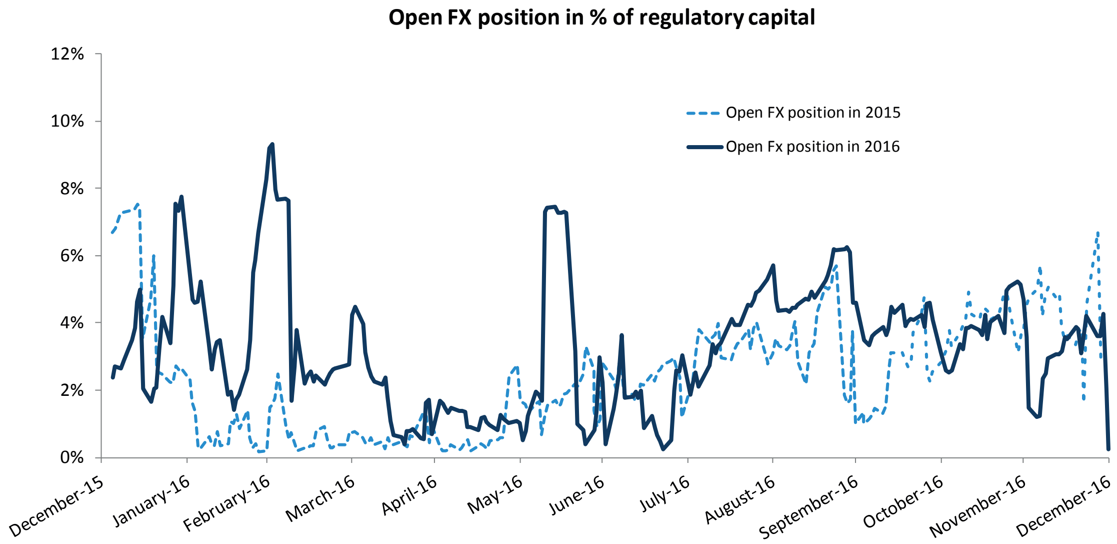
Back testing results of VaR model shows that profit or loss performance has exceeded VaR figures in 20 cases. The number of exceeds of VaR figures counts for 8% share of total observations in 2016. The portfolio is accounted only for items that were held for a short period, which also shape only small share in the overall balance sheet, hence limiting potential losses therein.

41.2.3. Foreign currency risk

The Bank is exposed to changes of foreign exchange rates, which influence its financial situation 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 2016, the Bank has continued with conservative strategy towards foreign currency risk exposure limited at EUR 240 thousand (equivalent to HRK 1,814 thousand) via internal Monte Carlo-based VaR calculation, although average total open FX position volume was 16% higher compared to 2015.

The following graph shows comparison in movements of open foreign currency position related to regulatory capital for the year 2016 and 2015:



The Bank is mainly exposed to the Euro (EUR). The following table details the Bank's sensitivity to a 10% decrease of the domestic currency (HRK) against the relevant foreign currencies as of 31 December 2016.

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

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

The following table presents the net FX position with the net profit or loss effect as at 31 December 2015:

	EUR	CHF	USD	GBP	Other
Open FX position	74,736	29,184	3,146	833	3,878
Net profit or loss effect	7,474	2,918	315	83	381

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.

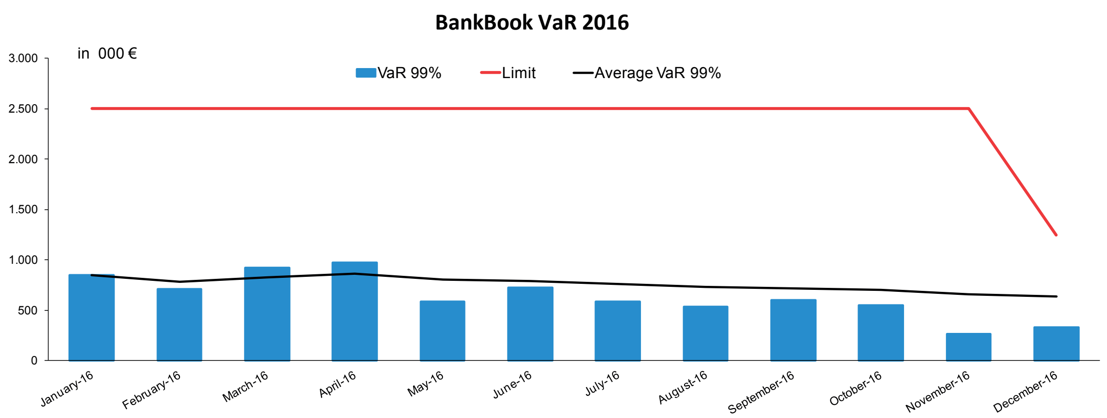
A positive number indicates an increase in profit in case of the HRK 10% depreciation against the relevant currency. In case of HRK 10% appreciation against the relevant currency, there would be an equal impact but with opposite sign.

41.2.4. Interest rate risk

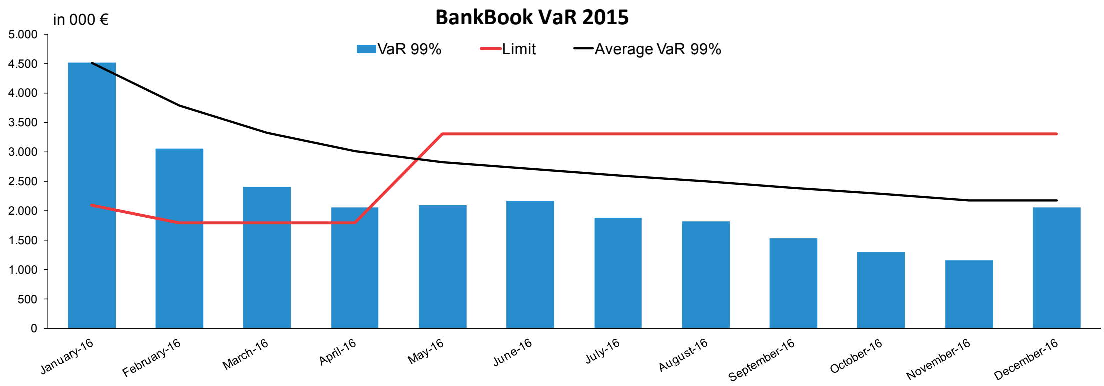
Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. Management of interest rate risk is performed through Interest rate GAP report with the inclusion of utilization of internally accepted limits, and based on this report 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 key event that affected the Bank's portfolio in 2016 is connected to the conversion of the CHF value clause loans via legislation amendments that allowed the Bank clients to convert the CHF loans. The named event led to reduction in interest rate risk in the Bank as the clients either converted the CHF loans (where interest rate was treated as fixed) to variable rate EUR loans and closed their exposure fully, hence increasing the Bank's cash position. As a result, the Bank's interest rate gaps at the long end were substantially reduced, while short-end gaps were increased, which in combination ended with smaller interest rate risk in the Bank Book. Aside from Brexit impact during the second and early part of third quarter, the last quarter of the year was marked by the US political uncertainties and increased USD interest rate volatility. The mentioned events were successfully counteracted with decreased exposure in mid-term gaps. It is important to mention that the Bank likewise acted primary in order to allocate accumulated cash backflow into liquid mid-term securities, which decreased interest rate risk.

VaR limit monitoring and average usage of given limits for interest rate risk for 2016 is given in graph below (decrease of VaR limit to the level of EUR 1,250 thousand, equivalent to HRK 9,447 thousand, in December 2016 due to continuous low utilization of previous limit):



VaR limit monitoring and average usage of given limits for interest rate risk for 2015 is given in graph below:



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

HRK'000

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	No Effect*	Total
Assets	298,530	917,472	2,543,882	10,426,435	664,458	731,265	2,551,299	3,017,123	21,150,464
Liabilities	(232)	(2,465,663)	(2,345,972)	(6,964,790)	(2,431,352)	(2,069,467)	(1,580,307)	(3,292,682)	(21,150,464)
Interest GAP	**298,298**	**(1,548,191)**	**197,910**	**3,461,645**	**(1,766,894)**	**(1,338,202)**	**970,992**	**(275,559)**	**-**
Interest GAP (%)	**1.41%**	**(7.32%)**	**0.94%**	**16.37%**	**(8.35%)**	**(6.33%)**	**4.59%**	**(1.30%)**	**0.00%**

Interest GAP Balance as at 31 December 2015 is as follows:

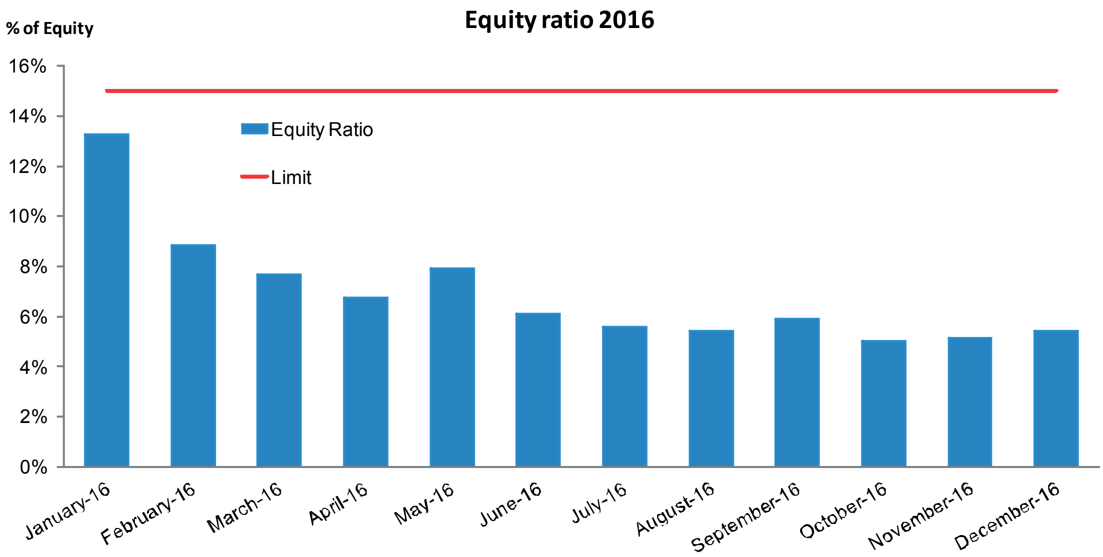
HRK'000

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	No Effect*	Total
Assets	1,304,165	5,545,210	4,460,969	8,566,525	707,047	495,662	3,369,324	1,312,724	25,761,625
Liabilities	(24,969)	(2,001,701)	(8,111,318)	(6,993,131)	(2,054,634)	(349,098)	(1,364,460)	(4,862,314)	(25,761,625)
Interest GAP	**1,279,196**	**3,543,509**	**(3,650,349)**	**1,573,394**	**(1,347,587)**	**146,564**	**2,004,864**	**(3,549,590)**	**-**
Interest GAP (%)	**4.97%**	**13.75%**	**(14.17%)**	**6.11%**	**(5.23%)**	**0.57%**	**7.78%**	**(13.78%)**	**0.00%**

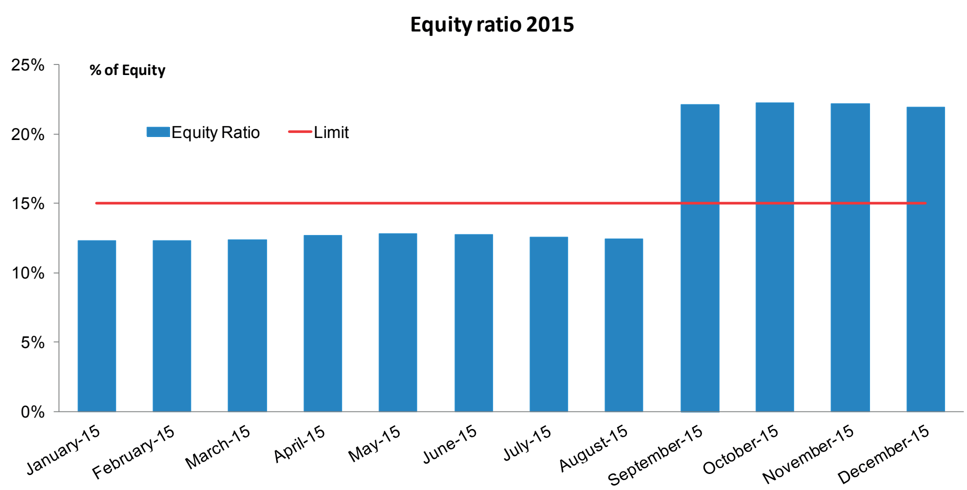
* "No Effect" position represents Share capital on Liability side and Tangible asset on Asset side.

As displayed on the graph for 2016, low level of the interest rate risk in the Bank Book with decreasing trend is mainly caused by the CHF loans conversion/closure during the HY1. Decreasing risk was slowed by sporadic volatility spikes in HY2 mainly driven by political uncertainties, domestic and foreign as well. The EUR component was major risk contributor throughout 2016 and due to a negative correlation effect it was partially offset by the CHF items.

Monitoring of Equity ratio which represents interest rate risk calculated as 200 BP interest rate shock in relation with regulatory capital as well as monitoring of internally given limit of 15% of regulatory capital for 2016 is given in graph as follows:



Monitoring of Equity ratio which represents interest rate risk calculated as 200 BP interest rate shock in relation with regulatory capital as well as monitoring of internally given limit of 15% of regulatory capital for 2015 is given in 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 personnel and 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 2016:

HRK'000

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	No Effect	Total
Interest GAP	**298,298**	**(1,548,191)**	**197,910**	**3,461,645**	**(1,766,894)**	**(1,338,202)**	**970,992**	**(275,559)**	**-**
50 BP parallel shift	0.00%	0.02%	0.08%	0.31%	0.69%	1.13%	3.58%	0.00%	
P/L effect	**-**	**(310)**	**158**	**10,731**	**(12,192)**	**(15,122)**	**34,762**	**-**	**18,028**

Interest GAP sensitivity as at 31 December 2015:

HRK'000

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	No Effect	Total
Interest GAP	**1,279,195**	**3,543,509**	**(3,650,349)**	**1,573,394**	**(1,347,587)**	**146,564**	**2,004,864**	**(3,549,590)**	**-**
50 BP parallel shift	0.00%	0.02%	0.08%	0.31%	0.69%	1.13%	3.58%	0.00%	
P/L effect	**-**	**709**	**(2,920)**	**4,878**	**(9,298)**	**1,656**	**71,774**	**-**	**66,798**

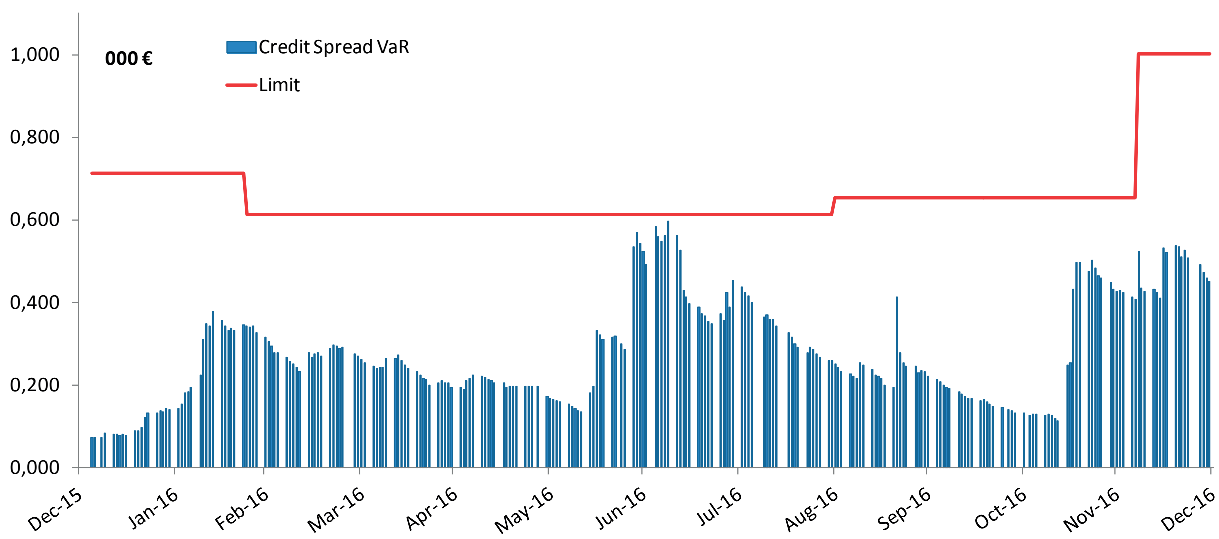
Sensitivity analysis is based on principle described in Basel Committee on Banking Supervision **"Principles for the Management and Supervision of Interest Rate Risk"**, July 2004, Annex 3 - The standardized interest rate shock.

41.2.5. Credit spread risk

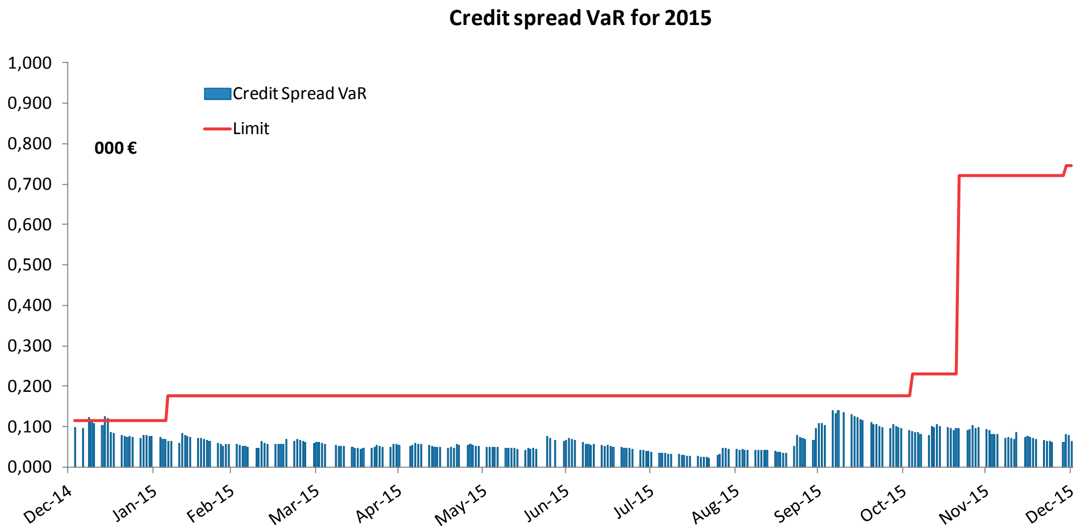
Credit spread risk represents the risk of debt instrument price change that comes out from a shift in expected client creditworthiness, which is usually reported through CDS curve. Along with the interest rate risk, credit spread risk represents the major risk factor within the market risks. Credit spread margin is a constitutional part of each market price of debt security and it is determined on 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. In last quarter of 2016, the Bank's strategy to allocate liquidity surplus into a Government and financial sector bonds consequently caused AFS portfolio increment and hence the increase of internal limit for Credit spread VaR. With some portfolio reallocations already taking place, the limit remains respected.

Historical trend of the Bank's exposure toward credit spread risk together with the given VaR limit for credit spread risk for 2016 is displayed in graph below:

Credit spread VaR for 2016



Historical trend of Bank exposure toward credit spread risk, together with given VaR limit for credit spread risk for 2015 is displayed in graph below:



Credit spread risk management is carried out through daily VaR reports, within which 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 bank is or it is not positioned within the defined/acceptable limits.

41.2.6. Liquidity risk

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

The Bank has a clearly defined tolerance towards liquidity risk exposure which is determined in accordance with adopted strategy and business plans. In order to meet all regulatory requirements, to achieve and respect security principles and 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 compliant to regulations given by the CNB. The Bank has applied measurement and reporting of minimum liquidity ratio in accordance with regulatory decision on liquidity risk management.

The following table represents minimum liquidity ratios up to one week and one month period in domestic and convertible (foreign) currencies for the year 2016:

	HRK	HRK	Convertible currencies	Convertible currencies
	1 week	1 month	1 week	1 month
Year End	3.69	2.71	4.05	2.81
Maximum	5.93	3.88	8.39	3.60
Minimum	1.72	1.69	2.08	1.63
Average	4.00	2.97	3.64	2.60

The CNB defines Minimum liquidity ratio ("MKL") as ratio of expected backflows and outflows within one week or one month, with the required minimum placed at 1.00. The HRK MKL within one month time frame peaked in late March 2016 largely thanks to increase in the short-term backflows. The MKL calculated from cash flows in convertible currencies within one month time frame peaked in late April 2016 mostly due to decrease of short-term liabilities. Throughout 2016 there were no limit breaches for MKL.

The following table represents minimum liquidity ratios up to one week and one month period in domestic and convertible (foreign) currencies for the year 2015:

	HRK	HRK	Convertible currencies	Convertible currencies
	1 week	1 month	1 week	1 month
Year End	2.51	1.81	6.48	2.85
Maximum	7.60	4.53	6.95	3.85
Minimum	1.50	1.46	1.18	1.03
Average	4.60	2.83	2.38	1.69

During 2016, 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 2016 and 2015:

	2016 %	2015 %
Year End	21.43	27.16
Maximum	36.64	32.42
Minimum	21.43	18.21
Average	29.53	22.98

The A/L ratio was maintained at nearly 30% throughout 2016, which was on average almost seven percentage points higher in comparison with the average level for the 2015. Such development is largely result of the improved foreign currency liquidity position amidst a simultaneous decline in foreign currency liabilities.

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).

As a mean of utilizing excess liquidity and optimizing Bank's interest expenses, in 2016, Bank has executed premature repayment of refinancing lines and has increased AFS bond portfolio. Through named actions A/L Ratio was normalized from high of 36.6% to levels of approximately 21%.

The following table shows the level of Liquidity ratios in 2016 and 2015:

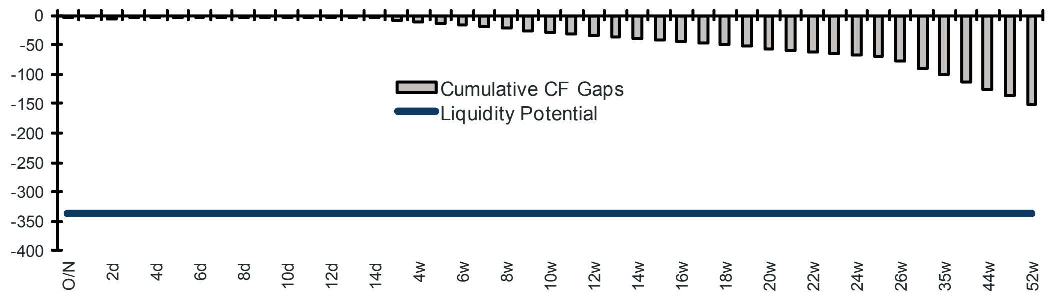
	2016 %	2015 %
Current liquidity ratio:		
Year End	30.60	21.01
Maximum	34.36	23.58
Minimum	23.77	16.18
Average	29.59	19.10
Loans to Deposits ratio:		
Year End	90.65	94.02
Maximum	117.54	98.63
Minimum	88.30	89.56
Average	96.87	95.26
Short term assets to short term Liabilities ratio:		
Year End	85.47	87.18
Maximum	112.21	87.18
Minimum	85.24	80.16
Average	98.97	83.42

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 monitoring on weekly level is being performed by the following measure used: the ratio of sufficient liquidity reserves versus projected outflows, also known as "Time to Wall" ratio. This ratio is defined for variety of scenarios. By monitoring of this ratio, liquidity risk measurement for several different predefined liquidity crises is being performed, starting from moderate to severe.

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

Normal Scenario 31.12.2016

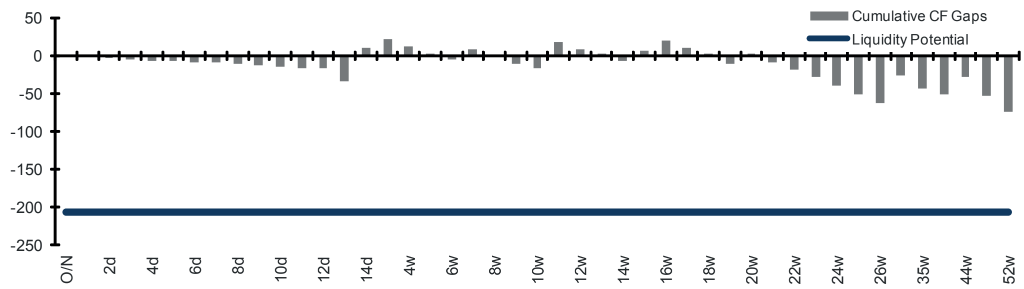
Time to Wall		>52 weeks
Liquidity Position (1.000 EUR) after	1 week	335
	1 month	325
	3 months	299
	6 months	259
	1 year	186



Graph below shows sufficiency of liquidity reserves in relation to net projected outflows ("Time to Wall" ratio) on 31 December 2015:

Normal Scenario 31.12.2015

Time to Wall		>52 weeks
Liquidity Position (1.000 EUR) after	1 week	196
	1 month	218
	3 months	207
	6 months	144
	1 year	131



Aside from above, the Bank has established a liquidity contingency plan which comprises a variety of measures and regulates procedures in case of particular crisis. Liquidity crisis declaration criteria are consisted 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 than in charge for 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 on short-term (below 12 months) and long-term (over 12 months) buckets for Bank's financial assets and liabilities as of 31 December 2016:

HRK'000

	Maturity below 1 year	Maturity over 1 year	Total
Assets			
Cash	316,557	-	316,557
Balances with Croatian National Bank	3,148,508	-	3,148,508
Other deposits	299,909	112,544	412,453
Financial assets at fair value through P/L and available for sale	729,404	3,587,444	4,316,848
Loans and receivables	1,069,095	11,220,390	12,289,485
Total financial assets	**5,718,600**	**15,380,501**	**21,099,101**
Liabilities			
Received deposits	7,416,406	10,023,294	17,439,700
Received loans	24,465	581,391	605,856
Other liabilities	237,438	156,738	394,176
Total financial liabilities	**7,867,148**	**13,231,953**	**21,099,101**

The following table gives an overview on original maturity divided on short-term (below 12 months) and long-term (over 12 months) buckets for Bank's financial assets and liabilities as of 31 December 2015:

HRK'000

	Maturity below 1 year	Maturity over 1 year	Total
Assets			
Cash	366,712	-	366,712
Balances with Croatian National Bank	2,220,464	-	2,220,464
Other deposits	1,953,069	-	1,953,069
Financial assets at fair value through P/L and available for sale	2,208,205	902,036	3,110,241
Loans and receivables	1,212,003	15,797,037	17,009,040
Total financial assets	**8,124,361**	**17,432,909**	**25,557,270**
Liabilities			
Received deposits	8,689,407	11,195,721	19,885,128
Received loans	374,746	709,354	1,084,100
Other liabilities	254,782	124,549	379,331
Total financial liabilities	**10,959,627**	**14,597,643**	**25,557,270**

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

HRK'000

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

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 of 31 December 2016 the balance of term deposits from retail customers was HRK 8,334,559 thousand and as of 31 December 2015 it was at HRK 9,163,970 thousand.

The following table details the remaining contractual maturity for Bank's financial assets and liabilities as at 31 December 2015:

HRK'000

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Assets								
Cash	854,554	-	-	-	-	-	-	854,554
Balances with Croatian National Bank	-	4,417	4,207	24,895	-	-	1,750,670	1,784,361
Financial assets at fair value through P/L and available for sale	-	303,590	125,008	1,830,694	21,540	224,227	327,802	2,832,861
Placements with and loans to other banks	1,363,915	654,991	279	79,604	-	-	-	2,098,788
Loans and receivables	34,785	313,347	940,598	3,676,950	2,927,095	2,477,484	10,302,478	20,672,736
Other assets	4	29	25	41	6	11	315	431
Investments in subsidiaries	-	-	-	-	-	-	4,659	4,659
Property, plant and equipment and intangible assets	-	-	-	-	-	-	458	458
Total assets	**2,253,257**	**1,276,373**	**1,070,118**	**5,612,184**	**2,948,812**	**2,701,722**	**12,386,382**	**28,248,849**
Liabilities								
Due to other banks	-	(537,007)	(1,573,883)	(870,444)	(557,809)	(519,219)	(2,719,528)	(6,777,890)
Deposits from customers	(4,010,728)	(1,212,204)	(1,350,208)	(5,441,053)	(2,051,144)	(315,420)	(188,474)	(14,569,232)
Deferred items	-	-	-	-	-	-	-	(38)
Provisions for liabilities and charges	(921)	-	(3,432)	(25,319)	(1,785)	(1,204)	(1,659,146)	(1,691,980)
Other liabilities	-	(24,643)	(27,281)	(161,089)	(38,209)	(18,265)	(287,713)	(557,329)
Equity	-	-	-	-	-	-	(2,570,337)	(2,570,337)
Total liabilities and equity	**(4,011,782)**	**(1,774,028)**	**(2,954,807)**	**(6,497,905)**	**(2,648,947)**	**(854,107)**	**(7,425,232)**	**(26,166,806)**
Gap per time band	**(1,758,524)**	**(497,655)**	**(1,884,689)**	**(885,720)**	**299,866**	**1,847,615**	**4,961,150**	
Gap in %	**(6.23%)**	**(1.76%)**	**(6.67%)**	**(3.14%)**	**1.06%**	**6.54%**	**17.56%**	

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

HRK'000

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Off Balance								
Non used overdrafts, frames and credit lines	1,259,340	6,004	3,205	71,784	34,809	-	-	1,375,142
Guarantees & Letters of credit	13,385	20,749	65,952	230,890	204,484	-	-	535,460
Derivatives nominal -long	-	239,946	6,047	3,779	-	-	-	249,772
Derivatives nominal -short	-	(240,061)	(6,046)	(3,791)	-	-	-	(249,899)

The following table details the remaining maturity for Bank's off balance positions as at 31 December 2015:

HRK'000

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Off Balance								
Non used overdrafts, frames and credit lines	796,738	2,855	14,813	199,246	172,841	47,556	76,273	1,310,321
Guarantees & Letters of credit	19,074	47,763	84,011	203,357	76,211	21,114	158,911	610,441
Derivatives nominal -long	-	1,178,822	27,411	1,032,017	-	-	-	2,238,250
Derivatives nominal -short	-	(1,171,158)	(27,293)	(1,077,625)	-	-	-	(2,276,076)

41.3. Operational Risk

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

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

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

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

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

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

Raising awareness on operational risk management is carried out by continuously maintaining of the internal trainings in the Bank and by establishment of 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 the 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 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 an 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 at 31st December 2016 amounts HRK 78,098 thousand. Total amount of realized losses (realized and potential), which were influenced by operational risk amounts HRK 4,047 thousand, and it represents 5.18 % of allocated capital requirement. These losses are recorded within 63 operational risk events.

Total gross volume of the realized losses amounts HRK 3,629 thousand and recovery is recorded in the amount of HRK 348 thousand, which represents net loss in the amount of HRK 3,280 thousand. Remaining amount of HRK 766 thousand is referring to additional potential losses.

41.4. Derivative Financial Instruments

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

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

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 2016 and 2015 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 of 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 Croatian National Bank. The Group's and the Bank's regulatory capital requirements were based on Basel III.

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

Minimum capital adequacy ratios according to Article 92 of the CRR are as follows:
- Common Equity Tier 1 capital ratio of 4.5% of the total risk exposure amount,
- Tier 1 capital ratio of 6% of the total risk exposure amount,
- Total capital ratio of 8% of the total risk exposure amount.

In addition to regulatory prescribed minimum capital adequacy ratios and in accordance with Articles 117 and 130 of CNB's Credit Institutions Act and Articles 129 and 133 of CRD IV, the Group and the Bank are also obliged to maintain the following capital buffers:
- capital conservation buffer in the amount of 2.5% of the total risk exposure amount, and
- systemic risk buffer in the amount of 3% of the total risk exposure amount.

The following table presents regulatory capital and capital adequacy ratios as at 31 December 2016 and 31 December 2015:

HRK'000

	Group 2016	Group 2015	Bank 2016	Bank 2015
Regulatory capital:				
Core capital	2,398,865	2,062,887	2,412,797	2,067,222
Supplementary capital	1,280,827	1,553,623	1,280,827	1,553,623
Total regulatory capital	**3,679,692**	**3,616,510**	**3,693,624**	**3,620,845**
Credit risk-weighted assets and other risk exposures	**12,486,596**	**16,550,701**	**12,347,293**	**16,167,420**
Core capital adequacy ratio	19.21%	12.46%	19.54%	12.79%
Total regulatory capital adequacy ratio	29.47%	21.85%	29.91%	22.40%
Required regulatory capital adequacy ratio	8.00%	8.00%	8.00%	8.00%

There were no breaches of minimal regulatory limits related to capital adequacy in 2016 and in 2015 until the date of these financial statements.

Pursuant to the Croatian Accounting Law (Official Gazette 109/2007) Croatian National Bank issued the Decision on structure and contents of annual financial statement of the banks (Official Gazette 62/2008). The following tables present financial statements in accordance to the above mentioned decision:

Consolidated Statement of Profit or Loss

HRK'000

	2016	2015
1. Interest income	843,871	976,255
2. (Interest expenses)	(425,270)	(589,756)
3. Net interest income	**418,601**	**386,499**
4. Commission and fee income	220,162	236,623
5. (Commission and fee expenses)	(47,561)	(212,327)
6. Net commission and fee income	**172,601**	**24,296**
7. Gain/(loss) from investments in subsidiaries, affiliated companies and joint ventures	-	-
8. Gain/(loss) from trading activities	73,111	(81,653)
9. Gain/(loss) from embedded derivatives	45,513	(46,714)
10. Gain/(loss) from financial assets not traded on active markets at fair value through profit or loss	-	-
11. Gain/(loss) from financial assets available for sale	64,385	924
12. Gain/(loss) from financial assets held to maturity	-	-
13. Gain/(loss) from hedging transactions	(993)	980
14. Income from investments in subsidiaries, affiliated companies and joint ventures	-	-
15. Income from other equity investments	22	-
16. Gain/(loss) from foreign exchange differences	(75,692)	48,798
17. Other income	84,776	96,554
18. Other expenses	111,742	1,628,467
19. General and administrative expenses, depreciation and amortization	523,445	610,366
20. Net income before value adjustments and provisions for losses	**147,137**	**(1,809,149)**
21. Expenses from value adjustments and provisions for losses	67,219	629,286
22. Profit/(loss) before tax	**79,918**	**(2,438,435)**
23. Income tax	20,287	96,239
24. Current year profit/(loss)	**59,631**	**(2,534,674)**
25. Earnings per share	-	-

Appendix to the Statement of Profit or Loss

HRK'000

	2016	2015
Current year profit/(loss)	59,631	(2,534,674)
Distributable to the parent company shareholders	59,631	(2,534,674)
Minority participation	-	-

Signed on behalf of Addiko Bank d.d. Zagreb on 27 February 2017

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

Consolidated Balance Sheet

HRK'000

	2016	2015
Assets		
1. Cash and deposits with CNB	3,155,967	2,587,176
1.1. Cash	316,557	366,712
1.2. Deposits with CNB	2,839,410	2,220,464
2. Deposits with banking institutions	721,802	1,953,264
3. Treasury bills of Ministry of Finance and treasury bills of CNB	332,252	671,857
4. Securities and other financial instruments held for trading	31,757	8,488
5. Securities and other financial instruments available for sale	3,646,527	2,147,656
6. Securities and other financial instruments held to maturity	-	-
7. Securities and other financial instruments that are not traded on active markets at fair value through profit or loss	-	-
8. Derivative financial assets	635	35,068
9. Loans to financial institutions	95,679	217,577
10. Loans to other clients	12,438,158	16,860,294
11. Investments in subsidiaries, affiliated companies and joint ventures	-	-
12. Repossessed assets	10,428	127,443
13. Tangible assets (minus depreciation)	345,169	624,755
14. Interests, fees and other assets	317,616	308,410
A. Total assets	**21,095,990**	**25,541,988**

HRK'000

	2016	2015
Liabilities and equity		
1. Borrowings from financial institutions	594,719	869,198
1.1. Short-term borrowings	22,011	150,000
1.2. Long-term borrowings	572,708	719,198
2. Deposits	15,425,825	17,799,949
2.1. Deposits on giro-accounts and current accounts	3,458,626	2,611,039
2.2. Savings deposits	2,411,096	1,817,615
2.3. Term deposits	9,556,103	13,371,295
3. Other borrowings	-	204,122
3.1. Short-term borrowings	-	-
3.2. Long-term borrowings	-	204,122
4. Derivative financial liabilities and other trading financial liabilities	1,851	123,396
5. Issued debt securities	-	-
5.1. Issued short-term debt securities	-	-
5.2. Issued long-term debt securities	-	-
6. Issued subordinated instruments	-	-
7. Issued subordinated debt	1,803,624	1,822,062
8. Interests, fees and other liabilities	688,212	2,157,772
B. Total liabilities	**18,514,231**	**22,976,499**
Equity		
1. Share capital	5,036,379	5,036,379
2. Current year gain/loss	59,631	(2,534,674)
3. Retained earnings/(loss)	(2,682,480)	(142,901)
4. Legal reserves	126,051	125,851
5. Statutory and other capital reserves	31,879	21,981
6. Unrealized gain /(loss) from available for sale fair value adjustment	10,299	58,853
C. Total equity	**2,581,759**	**2,565,489**
D. Total liabilities and equity	**21,095,990**	**25,541,988**

Appendix to the Balance Sheet

HRK'000

	2016	2015
Total equity	2,581,759	2,565,489
Equity distributable to parent company shareholders	2,581,759	2,565,489
Minority participation	-	-

Signed on behalf of Addiko Bank d.d. Zagreb on 27 February 2017

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

Consolidated Cash Flow Statement

HRK'000

	2016	2015
Operating activities		
1.1. Gain/(loss) before tax	79,918	(2,438,435)
1.2. Value adjustments and provisions for losses	104,832	620,992
1.3. Depreciation and amortization	86,966	109,811
1.4. Net unrealized (gain)/loss from financial assets and liabilities at fair value through profit or loss	402	66,834
1.5. (Gain)/loss from tangible assets sale	(3,903)	(3,491)
1.6. Other (gains)/losses	(1,388,350)	1,598,941
1. Operating cash flow before operating assets movements	**(1,120,135)**	**(45,348)**
2.1. Deposits with CNB	536,049	273,459
2.2. Treasury bills of Ministry of Finance and treasury bills of CNB	475,033	(32,795)
2.3. Deposits with banking institutions and loans to financial institutions	(35,775)	1,362
2.4. Loans to other clients	4,215,521	1,919,272
2.5. Securities and other financial instruments held for trading	(22,577)	22,672
2.6. Securities and other financial instruments available for sale	(1,674,643)	613,183
2.7. Securities and other financial instruments that are not traded on active markets at fair value through profit or loss	-	-
2.8. Other operating assets	132,024	(16,769)
2. Net (increase)/decrease in operating assets	**3,625,632**	**2,780,384**
Increase/(decrease) in operating liabilities		
3.1. Demand deposits	1,498,196	278,130
3.2. Savings and term deposits	(3,779,836)	(1,093,379)
3.3. Derivative financial liabilities and other trading liabilities	(88,718)	-
3.4. Other liabilities	(16,425)	8,173
3. Net increase/(decrease) in operating liabilities	**(2,386,783)**	**(807,076)**
4. Net cash flow from operating activities before profit tax paying	**118,714**	**1,927,960**
5. Paid profit tax	(691)	(623)
6. Net inflows/(outflows) of cash from operating activities	**118,023**	**1,927,337**
Investing activities		
7.1. Receipts from sale/(payments for purchasing) tangible and intangible assets	138,253	(103,436)
7.2. Receipts from sale /(payments for buying) investments in subsidiaries, affiliated companies and joint ventures	-	-
7.3. Receipts from collection/(payments for buying) securities and other financial instruments held to maturity	-	-
7.4. Received dividends	-	-
7.5. Other receipts/(payments) form investment activities	-	-
7. Net cash flow from investing activities	**138,253**	**(103,436)**
Financial activities		
8.1. Net increase/(decrease) in borrowings	(470,669)	(1,862,332)
8.2. Net increase/(decrease) in issued debt securities	-	-
8.3. Net increase/(decrease) in subordinated debt	-	-
8.4. Receipts from issued share capital	-	285,000
8.5. (Dividends paid)	-	-
8.6. Other receipts/(payments) from financial activities	-	-
8. Net cash flow from financial activities	**(470,669)**	**(1,577,332)**
9. Net increase/(decrease) in cash and cash equivalents	**(214,393)**	**246,569**
10. Effects from foreign exchange rates changes on cash and cash equivalents	**(35,781)**	**(40,682)**
11. Net increase/(decrease) in cash and cash equivalents	**(250,174)**	**205,887**
12. Cash and cash equivalents at the beginning of the year	**2,823,363**	**2,617,476**
13. Cash and cash equivalents at the end of the year	**2,573,189**	**2,823,363**

Consolidated Statement of Changes in Equity

HRK'000

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

Consolidated Statement of Changes in Equity (Continued)

HRK'000

	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Current year profit/ loss	Unrealised gain/ losses from available for sale financial assets fair value adjustment	Minority Partici-pation	Total capital and reserves
1. Balance at 1 January 2015	**4,751,379**	**-**	**162,016**	**(27,825)**	**(115,672)**	**2,271**	**-**	**4,772,169**
2. Changes of Accounting policies and error corrections	-	-	-	-	-	-	-	**-**
3. Restated current year balance	**4,751,379**	**-**	**162,016**	**(27,825)**	**(115,672)**	**2,271**	**-**	**4,772,169**
4. Sale of financial assets available for sale	-	-	-	-	-	(924)	-	**(924)**
5. Fair value changes of financial assets available for sale	-	-	-	-	-	57,506	-	**57,506**
6. Tax on items directly recognized or transferred from capital and reserves	-	-	(10,599)	-	-	-	-	**(10,599)**
7. Other gains or losses directly recognized in capital and reserves	-	-	(2,989)	-	-	-	-	**(2,989)**
8. Net gains/losses directly recognized in capital and reserves	**-**	**-**	**(13,588)**	**-**	**-**	**56,582**	**-**	**42,994**
9. Current year gain/ (loss)	-	-	-	-	(2,534,674)	-	-	**(2,534,674)**
10. Total income and expenses recognized for the current year	**-**	**-**	**(13,588)**	**-**	**(2,534,674)**	**56,582**	**-**	**(2,491,680)**
11. Increase/ (decrease) in share capital	285,000	-	-	-	-	-	-	**285,000**
12. Buying/(sale) of treasury shares	-	-	-	-	-	-	-	**-**
13. Other changes	-	-	(596)	596	-	-	-	**-**
14. Transfer to reserves	-	-	-	(115,672)	115,672	-	-	**-**
15. Dividends paid	-	-	-	-	-	-	-	**-**
16. Distribution of profit	**-**	**-**	**-**	**(115,672)**	**115,672**	**-**	**-**	**-**
17. Balance at 31 December 2015	**5,036,379**	**-**	**147,832**	**(142,901)**	**(2,534,674)**	**58,853**	**-**	**2,565,489**

As data in financial statements prepared in accordance with the Croatian National Bank ("CNB") decision are classified differently from data in financial statements prepared according to the statutory accounting requirements for banks in Croatia the following table presents comparatives.

Comparatives for the statement of profit or loss ended 31 December 2016 and 31 December 2015:

HRK'000

	2016 Croatian National Bank's Decision	2016 Accounting Requirements for banks in Croatia	2016 Difference	2015 Croatian National Bank's Decision	2015 Accounting Requirements for banks in Croatia	2015 Difference
Interest and interest similar income	843,871	841,214	2,657	976,255	990,345	(14,090)
Interest and interest similar expenses	(425,270)	(396,638)	(28,632)	(589,756)	(559,497)	(30,259)
Net interest income	**418,601**	**444,576**	**(25,975)**	**386,499**	**430,848**	**(44,349)**
Commission and fee income	220,162	220,162	-	236,623	236,623	-
Commission and fee expenses	(47,561)	(47,559)	(2)	(212,327)	(212,004)	(323)
Net commission and fee income	**172,601**	**172,603**	**(2)**	**24,296**	**24,619**	**(323)**
Net trading gain	73,111	183,010	(109,899)	(81,653)	(127,443)	45,790
Gain from financial assets available for sale	64,385	-	64,385	924	-	924
Loss from embedded derivatives	45,513	-	45,513	(46,714)	-	(46,714)
Income from other equity investments	22	-	22	-	-	-
Net foreign exchange differences	(75,692)	(65,463)	(10,229)	48,798	8,431	40,367
Other operating income	83,783	83,679	104	97,534	97,582	(48)
Total other income	**191,122**	**201,226**	**(10,104)**	**18,889**	**(21,430)**	**40,319**
General and administrative expenses, depreciation and amortization	(523,445)	(86,966)	(436,479)	(610,366)	(109,811)	(500,555)
Personnel expenses	-	(245,635)	245,635	-	(276,772)	276,772
Expenses from value adjustments and provisions for losses	(67,219)	(104,832)	37,613	(629,286)	(620,988)	(8,298)
Result on conversion of CHF loans	-	68,962	(68,962)	-	(1,591,295)	1,591,295
Other operating expenses	(111,742)	(370,016)	258,274	(1,628,467)	(273,606)	(1,354,861)
Total other expenses	**(702,406)**	**(738,487)**	**36,081**	**(2,868,119)**	**(2,872,472)**	**4,353**
Profit/(loss) before tax	**79,918**	**79,918**	**-**	**(2,438,435)**	**(2,438,435)**	**-**
Income tax	(20,287)	(20,287)	-	(96,239)	(96,239)	-
Net profit/(loss) for the year	**59,631**	**59,631**	**-**	**(2,534,674)**	**(2,534,674)**	**-**

The difference in position "Interest and interest similar income" of HRK 2,657 thousand relates to foreign exchange differences disclosed in "Net foreign exchange differences" in the statement of profit or loss in accordance with statutory accounting requirements for banks in Croatia.

The difference in position "Interest and interest similar expenses" of HRK 28,563 thousand relates to savings deposits insurance premium expenses disclosed in "Other operating expenses" in accordance with statutory accounting requirements for banks in Croatia. The difference of HRK 69 thousand relates to foreign exchange differences disclosed in "Net foreign exchange differences" in the statement of profit or loss in accordance with statutory accounting requirements for banks in Croatia.

The difference in position "Commission and fee expenses" of HRK 2 thousand relates to foreign exchange differences on non-interest payables disclosed in "Net foreign exchange differences" in financial statements in accordance with statutory accounting requirements for banks in Croatia.

The difference in position "Gain from financial assets available for sale" of HRK 64,385 thousand relates to income from trading in assets available for sale disclosed in “Net trading gain” in financial statements in accordance with statutory accounting requirements for banks in Croatia.

The difference in position “Loss from embedded derivatives” of HRK 45,513 thousand relates to the loss from embedded derivatives disclosed in “Net trading gain” in financial statements in accordance with statutory accounting requirements for banks in Croatia.

The difference in position “Income from other equity investments” of HRK 22 thousand relates to dividends received disclosed in “Other operating income” in financial statements in accordance with statutory accounting requirements for banks in Croatia.

The difference in position “Net foreign exchange differences” of HRK 7,643 thousand relates to foreign exchange differences on impairment items disclosed in “Expenses from value adjustments and provisions for losses” in accordance with CNB decision. The difference of HRK 2,586 thousand relates to above listed foreign exchange differences on interest and non-interest receivables and payables.

The difference in position “Other operating income” of HRK 126 thousand relates to income from collected written-off receivables disclosed in “Expenses from value adjustments and provisions for losses” in accordance with CNB decision.

The difference of HRK 22 thousand relates to dividends received disclosed in “Income from other equity investments” in accordance with CNB decision.

The difference in position “General and administrative expenses, depreciation and amortization” of HRK 26,615 thousand relates to property impairment losses disclosed in “Expenses from value adjustments and provisions for losses” in financial statements in accordance with statutory accounting requirements for banks in Croatia. The difference of HRK 229,318 thousand relates to personnel expenses disclosed in “Personnel expenses” in financial statements in accordance with statutory accounting requirements for banks in Croatia. The difference of HRK 180,546 thousand relates to material and services expenses and other expenses disclosed in “Other operating expenses” in financial statements in accordance with statutory accounting requirements for banks in Croatia.

The difference in position “Personnel expenses” of HRK 229,318 thousand relates to personnel expenses disclosed in “General and administrative expenses, depreciation and amortization” in financial statements in accordance with statutory accounting requirements for banks in Croatia. The difference of HRK 16,317 thousand relates to personnel provisions disclosed in “Other operating expenses” in financial statements in accordance with statutory accounting requirements for banks in Croatia.

The difference in position “Expenses from value adjustments and provisions for losses” of HRK 26,615 thousand relates to property impairment losses disclosed in “General and administrative expenses, depreciation and amortization” in accordance with CNB decision. The difference of HRK 7,643 thousand relates to foreign exchange differences on impairment items disclosed in “Net foreign exchange differences” in financial statements in accordance with statutory accounting requirements for banks in Croatia. The difference of HRK 126 thousand relates to income from collected written-off receivables disclosed in “Other operating income” in financial statements in accordance with statutory accounting requirements for banks in Croatia. The difference of HRK 3,480 thousand relates to directly written-off receivables disclosed in “Other operating expenses” in accordance with CNB decision.

The difference in position “Result on conversion of CHF loans” of HRK 68,962 thousand relates to provision losses disclosed in “Other expenses” in accordance with CNB decision.

The difference in position “Other operating expenses” of HRK 28,563 thousand relates to savings deposits insurance premium expenses disclosed in “Interest and interest similar expenses” in accordance with CNB decision.

The difference of HRK 16,317 thousand relates to personnel provisions disclosed in “Personnel expenses” in financial statements in accordance with statutory accounting requirements for banks in Croatia. The difference of HRK 180,546 thousand relates to material and services expenses and other expenses disclosed in “General and administrative expenses, depreciation and amortization” in accordance with CNB decision. The difference of HRK 3,480 thousand relates to directly written-off receivables disclosed in “Expenses from value adjustments and provisions for losses” in financial statements in accordance with statutory accounting requirements for banks in Croatia.

Comparatives for the balance sheet at 31 December 2016 and 31 December 2015:

HRK'000

	2016 Croatian National Bank's Decision	2016 Accounting Requirements for banks in Croatia	2016 Difference	2015 Croatian National Bank's Decision	2015 Accounting Requirements for banks in Croatia	2015 Difference
Assets						
Cash and deposits with CNB	3,155,967	3,764,974	(609,007)	2,587,176	3,940,179	(1,353,003)
Treasury bills of Ministry of Finance and treasury bills of CNB	332,252	-	332,252	671,857	-	671,857
Financial assets at fair value through profit or loss	31,757	32,157	(400)	8,488	8,525	(37)
Placements with and loans to other banks	817,481	112,544	704,937	2,170,841	678,405	1,492,436
Loans and receivables	12,438,158	12,264,104	174,054	16,860,294	17,006,213	(145,919)
Available for sale financial assets	3,646,527	4,009,587	(363,060)	2,147,656	2,824,335	(676,679)
Repossessed assets	10,428	10,428	-	127,443	127,443	-
Investment property	-	8,929	(8,929)	-	126,977	(126,977)
Property, plant and equipment and intangible assets	345,169	277,457	67,712	624,755	508,833	115,922
Non-current assets and disposal groups classified as held for sale	-	325,729	(325,729)	-	-	-
Derivative financial assets	635	614	21	35,068	35,068	-
Other assets	317,616	182,214	135,402	308,410	217,617	90,793
Total assets	**21,095,990**	**20,988,737**	**107,253**	**25,541,988**	**25,473,595**	**68,393**
Liabilities						
Due to other banks and due to customers	16,020,544	16,216,580	(196,036)	18,873,269	19,102,528	(229,259)
Finance lease liabilities	-	-	-	-	-	-
Provisions for liabilities and charges	-	233,144	(233,144)	-	1,693,835	(1,693,835)
Derivative financial liabilities and other trading financial liabilities	1,851	1,837	14	123,396	123,396	-
Liabilities included in disposal groups classified as held for sale	-	20,473	(20,473)	-	-	-
Other liabilities	688,212	131,048	557,164	2,157,772	166,285	1,991,487
Total liabilities	**16,710,607**	**16,603,082**	**107,525**	**21,154,437**	**21,086,044**	**68,393**
Subordinated debt	1,803,624	1,803,896	(272)	1,822,062	1,822,062	-
Equity						
Share capital	5,036,379	4,992,972	43,407	5,036,379	4,992,972	43,407
Share premium	-	59,769	(59,769)	-	59,769	(59,769)
Net profit/(loss) for the year	59,631	59,631	-	(2,534,674)	(2,534,674)	-
Retained earnings/(loss carried forward)	(2,682,480)	(2,682,480)	-	(142,901)	(142,901)	-
Unrealized gain /(loss) from available for sale fair value adjustment	10,299	-	10,299	58,853	-	58,853
Reserves	157,930	151,867	6,063	147,832	190,323	(42,491)
Total equity	**2,581,759**	**2,581,759**	**-**	**2,565,489**	**2,565,489**	**-**
Total liabilities and equity	**21,095,990**	**20,988,737**	**107,253**	**25,541,988**	**25,473,595**	**68,393**

The difference in total assets and total liabilities of HRK 107,253 thousand between the balance sheet disclosed according to the CNB decision and the balance sheet disclosed in accordance with statutory accounting requirements for banks in Croatia arises from different classification of liabilities for early repayment of loans and from netting of current tax assets and current tax liabilities.

In statements according to CNB decision liabilities based on the early repayment of loans in the amount of HRK 107,233 thousand are included in the position “Interests, fees and other liabilities” in “Total liabilities”, while in the financial statements according to the statutory accounting requirements for banks in Croatia they are recognized as an adjustment in the position “Loans and receivables” in “Total assets”.

Current tax liabilities in the amount of HRK 20 thousand are recognized in position “Other liabilities” in “Total liabilities” in statements according to CNB decision whereas in the financial statements according to the statutory accounting requirements for banks in Croatia they are netted with current tax assets in the position “Current tax assets” in “Total assets”.

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

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

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

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

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

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