Addiko Bank

PUBLIC DISCLOSURE OF

ADDIKO BANK d.d. ZAGREB

AND SUBSIDIARY COMPANIES

(consolidated figures)

As at 31 December 2016

Zagreb, May 2017

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1 INTRODUCTION

Pursuant to provisions of Article 165, of the Credit Institution Act1, Low on Amendments on Credit Institution Act 2 and provisions of the Regulation (EU) No 575/2013, Part eight, the Group with Addiko Bank d.d. Zagreb as a parent credit institution (hereinafter: the Group) hereby discloses the following information as at 31 December 2016 for the credit institution and subsidiary companies. All data are presented in thousands of HRK, unless otherwise stated.

1.1 SCOPE OF PUBLICLY DISCLOSED INFORMATION AND EXEMPTION OF INFORMATION FROM PUBLIC DISCLOSURE

Addiko Bank d.d. Zagreb, pursuant to provisions of the Credit Institutions Act (Article 165, 166 and 167), Law on Amendments on Credit Institutions Act (Article 36) and Regulation (EU) No 575/2013, Part eight – Disclosure of institutions, publishes the following information:

- Information on managing related to the organizational structure and management system,
- Information on organization,
- Risk management objectives and policies for each risk category,
- Information on the scope of application of requirements,
- Information on own funds,
- Information on capital requirements pursuant to provisions of the Regulation (EU) No 575/2013 (Article 92) and Article 73 of the Directive 2013/36/EU,
- Information on the exposure to counterparty risk as defined in Part three, Title II, Chapter 6,
- Information on Bank's exposure to credit and dilution risk – information on credit risk adjustment,
- Information on unencumbered assets,
- Information on the application of ECAIs,
- Information on market risk exposure,
- Information on equity exposure that are not included in trading book,

[1] Official Gazette 159/2013

[2] Official Gazette 19/2015

- Information on Bank's exposure to interest rate risk for positions that are not included in the trading book,
- Information on approach selection for capital requirement assessment for operational risk, and the manner and scope of approach for calculating capital requirement for operational risk,
- Information on remuneration policy,
- Information on leverage ratio and application of the Article 499 (2), Regulation EU No 575/2013,
- Information on usage of credit risk mitigation techniques,

Exclusion from the Public Disclosure

The Bank does not calculate risk-weighted exposure amounts in accordance with the IRB approach, and does not disclose information related to the application of IRB Approach.

Regarding public disclosure on counterparty credit risk, the Bank is tracking counterparty credit risk according to the standardized approach as prescribed in the Regulation (EU) 575/2013. In this respect, the Bank does not calculate the Wrong-Way risk exposure, which is prescribed in the Regulation (EU) 575/2013.

Pursuant to CNB's document "Explanation for setting the countercyclical buffer rate for the Republic of Croatia", Croatian National Bank has introduced the countercyclical buffer rate of 0%, therefore the Bank does not disclose information related to buffer rate request.

The Bank has no securitization transactions and exposures and therefore does not publish information about such exposures.

For the calculation of capital requirements for market risk, the Bank does not publish information on the application of advanced approaches for market risk as these are not applied. The Bank applies a standardized approach for calculating capital requirements for market risk pursuant to provisions of Regulation (EU) No 575/2013 described in further chapters of the document.

For the calculation of capital requirements for operational risk, the Bank does not publish information on the application of advanced approaches for operational risk because the Bank does not apply it. The Bank applies a standardized approach for calculating capital requirements for operational risk pursuant to provisions of Regulation (EU) No 575/2013 described in further chapters of the document.

This document is published on the official web site of Addiko Bank d.d. Zagreb.

1.2 SCOPE OF APPLICATION

In accordance with Regulation (EU) 575/2013, Addiko-Bank d.d. (hereinafter: the Bank) is obligated to publicly disclose on a consolidated basis. The group of credit institutions, where -Addiko-Bank d.d. is the parent bank, as of 31 December 2016 includes the following companies:

Company name	Tax number	Equity interest
ADDIKO INVEST D.D.	1343602	100%
HYPO ALPE-ADRIA-LEASING D.O.O. U LIKVIDACIJI	1921088	100%

Table 1 Consolidated companies Addiko Bank d.d.

Scope and method of consolidation for supervision purpose on consolidated basis and for the preparation of financial statements in accordance with International Financial Reporting Standards are equal, as shown in the following table:

Company type	Company name	Consolidation for supervision purpose				Co acc
		Consolidation method		Deductible items in own funds	Companies- not consolidated nor deductible items	Consolidatio method
		Full	Proportional			Full
Investment fund company	ADDIKO INVEST D.D.	X				X
Leasing company	HYPO ALPE-ADRIA-LEASING D.O.O. U LIKVIDACIJI	X				X

Table 2 **Differences in scope and methods of consolidation for both, supervision purposes and according to** IFRS

There is no foreseeable significant legal or actual restriction of inevitable capital transfer or repayment of liabilities among the parent company and its subsidiary companies.

The Bank does not publish quantitative information regarding the scope of application of prudential requirements since the Group has no subsidiary companies that are excluded from the group of credit institutions in Republic of Croatia and whose own funds are less than the prescribed minimal amount of own funds.

1.3 DECLARATION ON ADEQUACY OF RISK MANAGEMENT AND RISK PROFILE

The Bank is developing its business and operates in accordance with good corporate governance practice. It has a well developed organizational structure, with clearly defined lines and management levels.

The internal control system is established in a way that allows the Bank timely monitoring and detection of the risks to whom is or might be exposed in its operation. The procedures, criteria and methods of measurement, assessment and management of the risks, the Bank prescribes thought internal acts, in accordance with legislation, standards and rules of the profession. Internal acts in written form are available to all employees of the Bank.

The realization of the strategic goals and the methods of risk management are defined in the Bank risk strategy and in number of policies, regulations and guidelines that define the basic guidelines in accordance with legislation and requirements of the Group.

The risk profile is continuously estimated together with the regularly reviewing of the assessment of adequacy of internal capital process. The methodology of calculating capital requirements for all types of risks is continuously developed with the aim of more efficient risk management at the Bank level. One of the basic processes that the Bank is carried out as part of a strategic risk management is a process of assessment of adequacy of internal capital ("ICAAP").

The basic process of the internal capital adequacy assessment process is the process of risk materiality assessment on the overall Bank level. This process defines, determines and measures the level of risks taken where also guidelines and processes are established with the purpose to manage risks in a most adequate manner. Risk materiality assessment relates to all the risks which are a result bank's business activities and taking on risks in different business events, which finally represent (potential) exposure to the Bank.

Management of capital structure is adjusted to the Bank's business strategy, type and level of risks taken. Capital planning process is an integral part of the Bank's planning and budgeting process and part of the internal capital adequacy assessment process (ICAAP) process used for assessing the current and future capital requirements for risks and internal capital. In this way the Bank ensures safety, stability and long-term business continuity, taking the risks in accordance with its desirable risk profile and in line with the previously defined risk appetite.

Minimum on annual basis Bank is making alignment of the risk strategy and the Bank's business strategy. In the event of significant changes in business operations or risk profile Bank is accessing of the harmonization of risk and business strategy.

Bank is actively managing the capital and maintains an amount sufficient to cover the risk to which is exposed to. During the 2016 Bank has been fully complied with defined capital requirements. In addition to defined minimum capital adequacy ratio and according to Article 117 and 130 of the Credit Institution Act and Article 129 and 133 of Directive 2013/36/EU the Bank also provides protective buffers of capital:

- capital conservative buffer of 2,5% of total risk exposure and
- systematic risk buffer from 3% of total risk exposure.

The following table shows the regulatory capital and capital adequacy ratio at 31 December 2016:

Group 2016 HRK '000	
Regulatory capital:	
Core capital	2,398,865
Supplementary capital	1,280,827
Total regulatory capital	**3,679,692**
Credit risk-weighted assets and other risk exposures	12,506,373
Core capital adequacy ratio	19,18%
Total regulatory capital adequacy ratio	29,42%
Required regulatory capital adequacy ratio	8,00%

Detailed information related to the capital and risk management, defined risk indicators are publicly disclosed within the document "Annual Report 2016" published on the official web site of Addiko Bank d.d. (www.addiko.hr) in the section Notes to the financial statements and later in this document.

Bank risk reports include a comprehensive overview of the risk profile, complies with the policy limits, as well as the key rules and limits.

Bank keeps business books and other business documentation, prepares and publishes financial statements in accordance with the legislation.

The audit of the Bank is carried out by an independent external auditor.

According to the Decision on the system of internal controls, the Management Board of Addiko Bank d.d. regularly reviews the adequacy of the procedures and the efficiency of the control functions, it documents the conclusions and informs the Supervisory Board thereabout.

The Management Board of Addiko Bank d.d. assesses the work of the risk control functions, the compliance monitoring function and the internal audit functions for the period from 1 January 2016 to 31 December 2016 as efficient and adequate and complied to the risk profile, business strategy and risk management of Addiko Bank d.d.

Management Board:

Mario Žižek, President of Management Board

Jasna Širola, Member of MB

Dubravko-Ante Mlikotić, Member of MB

Ivan Jandrić, Member of MB,

Joško Mihić, Advisor to the MB

During the 2016 there were no changes in the Management Board and more information related to the Mangement Board competence are public disclosed within the document "Annual Report 2016" published on the official web site of Addiko Bank d.d. (www.addiko.hr) in the section Notes to the financial statements.

2 ORGANISATION

Pursuant to Article 166 Paragraph 1 (Organizational Structure of the Bank) and Article 167 Paragraph 1 (Legal Relationship within the Group) of the Credit Institutions Act, we hereby disclose the following information:

2.1 ORGANISATION STRUCTURE

Bank is organisation with functional organisational structure that represents classical organizational structure which aim is to connect business units according to the business functions of the Bank (according to related and similar activities). The Bank established clear organizational structure with well defined, transparent and consistent lines of authority and responsibility within the Bank to avoid conflicts of interest.

Organizational structure in the Bank is divided into six Management Board areas:

CEO – advisory Management Board area

CFO – Finance

CRO – Risk

COO – Operations

CMO – Market – Corporate

CMO – Market - Retail

Management level B1 (those are executive directors and directors) is directly reporting to the Management Board. They are responsible for strategy and for management of Bank area. They define vision and innovations of main business segments within the Bank. The total number of directors on the management level B1 is 29.

Operational management on the management levels B2 and B3 lead the organizational units within divisions and departments. With such organization the clear responsibilities are defined and it ensures faster decision making process.

On the bank level different committees were found such as Audit Committee, Risk Committee, Loan Committee, Fit and Proper Committee etc. in which beside Management Board and Supervisory Board members also participate senior management and some other managerial functions according to the given competencies.

Bank defined clearly, in written authorities and responsibilities of Supervisory Board, Management Board, senior management, employees and committees, founded by Management Board and Supervisory Board.

The internal control system was established in all business areas. It enables the Bank timely monitoring and detection of risks incurred or that could be incurred in the daily operations, the reliability of financial reporting and compliance with legal regulations and good business practices.

Procedures, criteria and methods of measurement, assessment and management of risks, the Bank stipulated by its regulations, in accordance with legal regulations, standards and rules of the profession, as described further chapters of this document.

The implementation of control measures which are directly or indirectly integrated into the business processes of the Bank all employees and all organizational units of the Bank are involved.

Function for contracting / agreeing of transaction is separated from the business support functions, and from functions of the Treasury back office.

The internal control system is realized through the establishment of three functions: risk control function, internal audit function and compliance function.

These functions are independent in relation to the Bank's business activities.

Each of those functions independently and directly reports to the authorities in accordance with the laws, regulations and internal regulations of the Bank. The Bank's Management Board reviews annually the adequacy of the processed and the efficiency of the control functions, and informs the Supervisory Board.

ADDIKO BANK d.d.

- Board Area / CEO & CFO
  - Board Assistance
  - Finance, Accounting and Treasury
  - Economic Research
  - Legal and Compliance
  - Internal Audit
  - Competence Centre Corporate Communications
  - Competence Centre Human Resources
- Board Area / CRO
  - Risk Control
  - Corporate Risk Management
  - Retail Risk Management
- Board Area / COO & CMO_R
  - SEE Region IT Infrastructure Management
  - Competence Centre Marketing
  - SEE Region Application Development
  - Retail Product Management and CRM
  - SEE Region Procurement
  - Retail Channels and Sales Management
  - Procurement
  - Operations
  - Information Technology
  - Real Estate Management
  - Card Processing Center
  - Competence Centre Transaction Banking
- Board Area / CMO_CO&SME
  - Sales Support and Monitoring
  - Product Management
  - Region Zagreb SME
  - Region Zagreb Mid&Large
  - Region North Croatia
  - Region Dalmatia
  - Region Istria & Kvarner
  - Region Slavonia & Baranja

2.2 DESCRIPTION OF LEGAL RELATIONSHIPS WITHIN THE GROUP AND DESCRIPTION OF MANAGEMENT SYSTEM AND GROUP'S ORGANISATIONAL STRUCTURE

The parent company, ADDIKO BANK d.d. Zagreb (hereinafter: "the Bank"), is a joint stock company registered in the Republic of Croatia.

Companies consolidated with the parent company on 31st of December 2016 (hereinafter: "the Group"), including the ownership percentage, are shown in the following table:

Company name	Business	% ownership
ADDIKO INVEST D.D.	Investment fund management	100%
HYPO ALPE-ADRIA-LEASING D.O.O. U LIKVIDACIJI	Leasing	100%

Table 3 Consolidated companies

More detailed information on the business activities of Addiko Invest d.o.o. is disclosed within the document „Annual Report 2016" and published on the official web site www.addiko.hr. Subject document is prepared in accordance with the Law on The Open Investment Funds with a Public Offering and the Ordinances on the Structure and Contents of Financial Reports and Other Reports of UCITS Management Companies.

Company Hypo Alpe-Adria-Leasing d.o.o. in liquidation has no longer obligation to prepare and publish Annual financial report.

3 GOVERNANCE ARRANGMENTS

The Management Board manages the Bank in accordance with the Credit Institutions Act, the Companies Act and other laws and regulations, and general acts of the Bank, while the Supervisory Board supervises the management of the Bank.

Management structure of the Bank consists of the Management Board and the Supervisory Board.

3.1 MANAGEMENT BOARD

In accordance with the Statute of the Banks, the Management Board consists of at least 2 members to a maximum of 7 members.

As of 31.12.2016 Bank had 4 members.

The Croatian National Bank confirmed that the members of the Board are eligible for membership of the Management Board and has given prior consent to perform the functions of members of the Board.

According to the decision of the Supervisory Board the responsibilities of the President and members of the board are defined in the following way:

Mario Žižek - president of the Management Board - area of responsibilities:

(a) CEO that covers board assistance, economic research, legal and compliance, internal audit, corporate communications, human resources;

(b) CFO that covers Finance, accounting and treasury.

Dubravko - Ante Mlikotić – member of the Management Board – area of responsibilities CRO that covers risk control, corporate credit risk, retail risk management.

Jasna Širola - member of the Management Board - area of responsibilities

(a) COO that covers SEE region IT infrastructure management, SEE region application development, SEE region procurement, procurement, operations, information technology, real estate management, card processing center, transaction banking, marketing, retail product management and CRM, retail channels and sales management.

(b) CMO – Market – Retail that covers retail sales within retail branches in regions.

Ivan Jandrić – member of the Management Board – area of responsibilities CMO – Market – Corporate that covers sales support and monitoring, product management and following regions: region Zagreb SME, region Zagreb Mid & Large, region North Croatia, region Dalmatia, region Istra & Kvarner, region Dalmatia.

Such organisation ensures the efficient operation, a smooth information flow as well as prevents conflicts of interest.

Knowledge, ability and expertise of the members of the Board are being regularly revised once a year and confirmed by the Supervisory Board, in accordance with the Fit and Proper policy of the president and members of management board and key function holders.

3.2 SUPERVISORY BOARD

In accordance with the Statute of the Bank, the Supervisory Board consists of at least 3 members to a maximum of 9 members appointed by General Assembly on the period of 4 (four) years.

The members of the Supervisory Board are:

Hans-Hermann Anton Lotter – president

Edgar Flaggl – member

Nicholas John Tesseyman - member

Csongur Bulcsu Nemeth - member

Tomislav Perović – independent member

The Croatian National Bank confirmed that the Supervisory Board members are eligible for membership in the Supervisory Board of the Bank and has given prior consent to perform the functions of the Supervisory Board

The Supervisory Board gives approval to the management board for business policy, strategy and financial plan for the bank and supervises the management of the bank.

Supervisory Board reports to the General Assembly in written about supervision of the Bank.

3.3 SUPERVISORY BOARD COMMITTEES

According to the Rules of procedure for the Supervisory Board of the Bank, the Supervisory Board members may form committees and determine their duties and powers. The Supervisory Board may delegate its powers relating to decision-making process and giving consent to these committees.

The Supervisory Board established in accordance with the Audit Act and in accordance with the Law on Credit Institutions the following committees:

The Audit Committee is responsible for auditing the annual financial statements and consolidated financial statements and the preparation and determination of the final annual reports and requests for distribution of profits, as well as reports on the state of company and subgroups as well as for reporting on the audit result.

The Nomination committee is responsible for the following activities:

- nominate, assess, select and appoint members of the management and supervisory body,
- evaluate the balance of knowledge, skills, diversity and experience of members of the management and supervisory body
- develop a strategic plan to raise the underrepresented gender in accordance with target ratio;
- define the target diversity ratio

Nomination Committee shall at least once a year evaluate knowledge, skills and experience of the management body on individual and collective level, and report to the Supervisory Board accordingly; evaluate the structure, size, composition and performance of the management and supervisory body.

Nomination Committee shall at least once a year evaluate knowledge, skills and experience of the management body on individual and collective level, and report to the Supervisory Board accordingly; evaluate the structure, size, composition and performance of the management and supervisory body.

The Remuneration Committee is responsible for the following activities:

- adopt and regularly review the Remuneration Policy
- provide support and advice to the management board/supervisory board on the design of the company´s overall remuneration policy,
- adopt decisions having an impact on risks and risk management in the Company, which are related to the Remuneration Policy
- review, accept and evaluate compliance of the implementation of the Remuneration Policy (to be conducted on a yearly basis and submitted to the Management Board, the Supervisory Board of the Company and employees responsible for control functions)
- devote specific attention to the assessment of the mechanisms adopted to occasionally review a number of possible scenarios to test how the remuneration system will react to future external and internal events, and back test it as well,
- support the supervisory function in overseeing the remuneration system's design and operation on behalf of the supervisory function;
- have access to all data and information concerning the decision-making process of the supervisory board, on the remuneration system's design and implementation, as well as access to all information and data from risk management and control functions, in order to ensure that the remuneration system properly takes into account all types of risks, liquidity and capital levels
- ensure proper involvement of the control functions and other competent functions
- collaborate with other board committees whose activities may have an impact on the design and proper functioning of remuneration policy and practices (e.g. risk audit, and nomination committees),

- report own activities to the Supervisory Board, when requested,
- have one meeting per year as a minimum
- prepare recommendations to the Supervisory Board regarding the remuneration of the Members of the Management Board and Control functions holders,
- review the remuneration of Identified Staff.

While performing the above stated tasks, the Remuneration Committee shall take into account long-time interests of shareholders, investors and other stakeholders in the credit institution.

In 2016 the Remuneration Committee was held once.

Risk Committee of the Supervisory Board is committee which consists of Supervisory Board members and is held quarterly or if necessary. It represents the Committee which discusses and makes decisions on strategic topics related to the ICAAP process and other important issues related to the risk within CRO stream (Management Board member responsible for risk management).

Additionally, during the 2017, Bank has established **local Risk Committee** as permanent committee which members are: member of the Management Board responsible for Risk Management, organisational units involved in risk management and other B1 level managers.

Committee will be held quarterly or when is appropriate and represents strategic platform for organisational units involved in risk management within which not only relevant risk related methodology topics will be discussed, but also other issues such as stress test process and its results, portfolio aims and measures which has to be taken to be achieved.

Risk Committees have the following obligations:

- advise the supervisory board on the bank's overall current and future risk appetite and strategy and assist in overseeing the implementation of that strategy by senior management,
- review whether prices of liabilities and assets offered to clients take fully into account the Bank's business model and risk strategy. Where prices do not

properly reflect risks in accordance with the business model and risk strategy, the risk committee shall present a remedy plan to the management board,

- regardless of the Remuneration Committee duties, in order to assist in the establishment and implementation of sound remuneration policies, the risk committee shall examine whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings,

- perform other activities laid down by regulations.

Risk committee was held in 2016 for four times within the regular committees of the Supervisory Board. Board members follow a strategy of risk and risk appetite of the Bank.

3.4 RECRUITMENT POLICY AND DIVERSITY POLICY

In accordance with Regulation 575/2013, article 435., section 2, items a, b, c Addiko Bank d.d. applies ABG Recruitment policy that came into force in 2011 and since then it is regularly updated according to Group guidelines.

ABG Recruitment policy applies also to daughter companies of Addiko Bank d.d.

The Goal of Recruitment policy is to set the standards and procedures in selection and recruitment processes with a purpose to attract and employ best candidates for Addiko Bank d.d.

Additionally, in selection of key function holders, President and Members of the Management Board it is necessary to fulfil criteria in accordance with Fit&Proper policy.

Fit&Proper should be evaluated during internal or external selection process, i.e. before appointment of candidate on the right position.

Potential candidate should have knowledge in the relevant field and at least 3 years of professional experience in a managerial position or a position of an expert, in a company of similar size, type and operations. Apart from knowledge, skills and experience, it is also necessary to pay attention, in the course of the Fit&Proper, to personal reliability and good reputation.

Due to that reason in Addiko Bank d.d. is established „Fit&Proper Office“ in order to ensure regular updating and central records of Fit&Proper procedures and to propose measures to ensure ongoing suitability as required. The Fit&Proper Office consist of 3 members coming from sectors Legal and Compliance and Human Resources and Labour Relations.

Based on its assessment of the suitability of candidates, the „Fit&Proper Office“ issues a document called „Opinion on Candidate Suitability“, which, depending on the candidate, submits to the Supervisory Board or the executive board or the General Assembly and the Croatian National Bank.

3.5 INTERNAL CONTROL SYSTEM

The Group has established and conducts effective Internal Control System in all business areas according the provisions of Article 104 of the Credit Institutions Act.

All employees, particularly senior management, Management Board and Supervisory Board participate in establishing and implementing Internal Control System.

Internal controls, including administrative and accounting procedures from Article 104, paragraph 2, point 6 of the Credit Institutions Act are described in the "Annual report 2016" published on the official web site of Addiko-Bank d.d. (www.addiko.hr), and later in this document.

3.6 DESCRIPTION OF INFORMATION FLOW ON RISK UP TO MANAGEMENT

The Bank has clearly established system of monitoring and reporting on risks, in order to timely ensure the necessary information to participants in the risk management system and to business decision makers.

Risk Management processes are placed on top of the organization and are reflected through the adoption of clear and quantitatively oriented Bank's business policies. From these policies goals must be identified by products and business units and the maximum acceptable riskiness. On the other hand, in terms of control and reporting (and in the process from bottom to top) consolidated risk reporting system is being developed.

Total exposed positions are limited in the Bank, and also exposures through possible impact on business profitability. Total position limits show maximal position exposure. Other limit type relates on limits connected with influence on profitability. The limits results from the strategy and Bank's business goals. They should be sensitive to changes in the environment but also to changes in and from Bank's business. As such, limit system only makes sense if it is observed in time continuum and if it is supported by historical and stress scenarios which will confirm the reliability of the assumptions used in setting this limits.

Reporting and Risk Control is an independent function which should ensure absolute objectivity in assessing the Bank's risk exposure. This function is based on data from independent transaction sources. In addition, the goal is to establish and apply uniform standards of expressing individual risk positions. As a result of this function various reports and information for the different levels of governance (managerial, operational, control, external) are formed.

In its basis, reports on risk management can be internal or external. Internal reports are used by various Bank’s organizational units (usually responsible for managing that risk) as well as by senior management.

External reports are used by many entities of which the most important are: shareholders, owners, regulatory authorities, expert public, etc.

Risk reports include a comprehensive review of the risk profile, compliance with the strategic limits, as well as key rules and limits. In case of detected irregularities or non-compliance with the rules and limits, the Bank has prescribed escalation procedures.

3.7 RECOVERY PLAN

The Recovery Plan is one of the Bank's fundamental strategic documents according to which detailed procedures in situations of serious financial disorder are planned.

Recovery Plan is an integral part of the corporate governance system and Bank's/Group's overall risk management system through establishing a monitoring process, analysis and regular reporting to Bank's Management Board and all relevant persons on levels of key indicators defined in the Recovery Plan. Defined indicators, especially indicators of capital and liquidity, are included into regular risk materiality assessment process and Internal Capital Adequacy Assessment Process (ICAAP) and their level is tracked through regular reports. Also, in the process of creating stress scenarios within the Recovery Plan, are used the same models and methodology used by the Bank during the creation of stress test in the Internal Capital Adequacy Assessment Process, noting that in the case of the recovery plan the intensity of the simulated shocks was significantly higher in order to simulate a situation of serious financial disorder.

The method and scopre of implementation of requirements related to the creation of the recovery plans, method and delivery deadlines for plans

Pursuant to Article 4, paragraph 5 of the CNB's Decision on the recovery plans of credit institutions, the Bank has adopted a Recovery Plan Policy which defines and describes more closely a creation process, implementation and updating the Bank's recovery plan. This Policy was adopted by Management Board's decision.

A detailed description of the process and the responsibilities of each division/department involved in the creating and updating of the recovery plan are defined within internal document „Procedure for creating, updating and implementing the recovery plan“. By prescribing this Procedure, the Bank has also ensured fulfillment of the regulatory requirement from Article 20, paragraph 2 of the Decision which states that persons responsible for creation of the recovery plan should not be the in charge for stress testing of the same.

Recovery plan for the Group was assessed and aproved by the Bank's Management Bord on 55th Management Bord Committee held on 28th September of 2016 and Bank's Supervisory Board and Risk Committee at the Supervisory Bord approved it 27th of September 2016.

Also, by document „Recovery Plan Policy“ the Bank has defined pursuant to Article 7a), paragraphs 2 and 3, that if by regular monitoring of selected indicators Bank determines they have reached the level set for taking the measures from Recovery Plan, Bank's Management Board shall, within a maximum of five working days make decision on taking or refraining from taking measures of the Recovery Plan and notify without delay the Croatian National Bank about it. If the Bank made decision to refrain from taking measures of the Recovery Plan, that decision should be explained in detail.

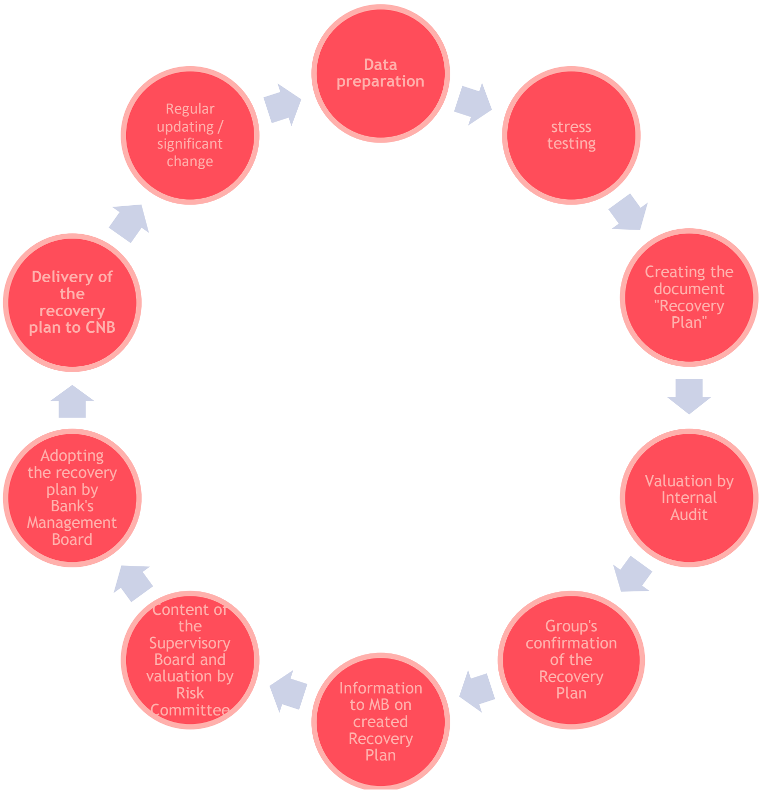
Bank's Management Board may decide to take measures of the Recovery Plan although identified indicators have not reached the level set for taking measures and should notify without delay the Croatian National Bank about it.

According to Bank's internal documents, Internal Audit division evaluates the recovery plan at least once a year.

A detailed description of the process and responsibilities of each division/department in the development and implementation of the Recovery Plan, Bank has defined within internal document „Procedure for creating, updating and implementing the recovery plan“ and appendix „Assignments per CNB's decision on the Recovery Plans of the credit institutions“ which defines responsibilities of each division/department in data preparation.

According to Decision, some organizational units participate in creating the recovery plan, depending on responsibility area.

The process of creating and updating the Recovery Plan is shown in the following picture:



Picture 2 Process of creating and updating the Recovery Plan

The Bank has no assembled The Support Agreement

4 RULES ON RISK MANAGING

4.1 GENERAL RULES ON RISK MANAGING

The Bank has established strategic risk management function which is performed by Risk Control division.

General rules for the establishment and implementation of risk management system are based on the CNB's "Decision on risk management" and accordingly, the Bank has established and conducts an effective risk management system, commensurate with the type, scope and complexity of operations performed and the risks characteristic for business model.

In accordance with the "Decision on risk management", the Bank has adopted policies and other internal acts for regulating risk management and through which the Bank has defined:

- Risk Management Strategy,
- Risk Appetite and
- Alignment of the Risk Management Strategy with Business Strategy.

The realization of the Bank's strategic objectives and the risk management method is defined in the Risk Strategy and a series of policies, regulations and guidelines that define the basic guidelines in accordance with legal regulations and Group's requirements.

The main risks to which the Bank is exposed arise from the Bank's business operations and economic movements, and the Bank confronts them in the form of credit, market, liquidity and currency risk, operational risk and other risks.

This way were established processes of identification, assessment, measuring and managing the taken risks and unexpected events, and all for the purpose of achieving a stable and profitable Bank's business with the improvement of performance indicators and improvement of the portfolio quality in terms of riskiness and profitability.

4.2 RULES ON MANAGING CREDIT RISK

In accordance with the regulation the Bank adopted and implemented sound policies and procedures for credit risk management and decisions on credit granting are based on sound and well – defined criteria. The Bank defined the decision making procedure for approving, amending, renewing and refinancing credits

The Bank set up a sound and efficient system for management and ongoing monitoring of portfolios and individual credit risk-bearing exposures and ensured its implementation, which includes:

- management of portfolios and individual credit risk-bearing exposures, identification and management of problem placements and distribution of exposures into groups based on recoverability; and
- carrying out value adjustments for on-balance sheet items and forming provisions for risk-bearing off-balance sheet items.

The diversification of credit-bearing portfolios is in line with the Bank's strategy and target markets. Internal methodology is determined and enables an assessment of credit exposure to individual debtors, securities or securitization positions and credit risk at the portfolio level.

The Bank ensured that the front office function is clearly separated, operationally and organizationally, from the risk control function and the operation support function, up to the level of the management board.

Organizational structure for the desicion-making process on the granting of placements ensures:

- the establishment of criteria, policies and procedures for the granting of new placements and the refinancing and restructuring of existing placements,
- the establishment of rules on the granting of placements at the level of individual debtors and collateral providers and at the level of the group of clients connected with the debtors and collateral providers, depending on the placement amount and risk,
- the establishment of the competences of the supervisory board, the management board and committees appointed by them, as well as of the powers to grant placements assigned to individual management levels, depending on the placement amount and risk.

In accordance with the Bank's internal act a placement can be granted only subject to the approval of the authorized persons responsible for credit risk assessment. Bank has decison-making rules for the granting of placements.

Within the front office function, the Bank does not carry out value adjustments for on balance sheet item or for provision for risk bearing off-balance sheet items.

The credit process includes the following:

- a placement granting process;
- a placement monitoring process;
- a credit portfolio analysis;
- the treatment of non-performing placements;
- a credit risk early warning system; and
- a placement classification process according to the degrees of risk.

4.2.1 Placement granting process

Before granting a placement, Bank assesses the creditworthiness of the debtor, taking into account own criteria prescribed in an internal bylaw and the minimum requirements referred to in the Decision on the classification of placements and off-balance sheet liabilities of credit institutions.

When analyzing the recoverability of a placement, Bank primarily takes into account the creditworthiness of the debtor and treat, as a rule, the collateral received for the placement as the secondary collection source.

Before granting a placement, a credit institution shall assess the creditworthiness of the debtor. The Bank adopted a policy on eligible collateral and the methodology for assessing collateral value taking into account the minimum requirements referred to in the Decision on the classification of placements and off-balance sheet liabilities of credit institutions.

4.2.2 Placement monitoring process

The placement monitoring process includes an assessment of the creditworthiness of the debtor and of the group of clients connected with the debtor as well as an assessment of the collateral quality during the legal relationship constituting the exposure.

During the legal relationship constituting the exposure to credit risk, Bank monitors the operation of the debtor, as well as the quality, marketability, availability, value and validity of collateral.

Bank ensured the monitoring of debtor's compliance with contractual terms and conditions and, when the placements have been granted for designated purposes, the monitoring of whether the funds placed have been used exclusively for these purposes.

The placement monitoring is established in a manner as to enable a timely implementation of adequate measures to mitigate credit risk if the creditworthiness of the debtor or collateral provider deteriorates.

Procedures prescribing the collection and monitoring of all relevant information which might point to an increase in the risk of the placements and collateral are adopted and also a procedure of reporting this information to all authorized persons included in the credit risk management process, so that the risk of placements could be reassessed.

4.2.3 Credit portfolio analysis

The Bank established a system for an ongoing analysis of the structure and quality of the overall credit portfolio which includes an analysis of concentration risk inherent in the portfolio and an assessment of future trends in the credit portfolio structure and quality. The Bank takes into account these analyses when defining the strategies and policies for the credit risk assumption and management.

System for regular monitoring of and reporting is established in order to provide timely, accurate and sufficiently detailed information to all relevant management levels required for making business decisions and ensuring safe and stable operation.

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.

4.2.4 Treatment of non performing placements

The Bank defined the criteria for the increase in the degree of risk according to which a placement is to be considered as non-performing and classified within the scope of the non-performing placement monitoring function.

The criteria for the treatment of non-performing placements are defined within the internal act and efficient function responsible for the monitoring and treatment of nonperforming placements is established, independent from the activities performed by the front office function.

Also, the Bank takes legal action as necessary to activate and liquidate collateral for problem placements.

4.2.5 Treatment of restructured placements

The Bank assesses whether the restructuring of placements granted to an individual debtor is economically justified and establishes an adequate restructuring plan and monitors its implementation and effects.

When determining whether the restructuring of placements granted to a debtor is economically justified, Bank obtains:

- a detailed analysis of the reasons that led to difficulties in the operation of the debtor;
- a plan for the operational, financial and ownership restructuring of the debtor;
- a cash flow projection for the period of at least three years or the period defined in the restructuring plan.

On the basis of the referred information referred, Bank makes:

- an assessment of the feasibility of a plan for the operational, financial and ownership restructuring of the debtor;
- an analysis of possible methods of placement restructuring and the rationale for the chosen method;
- a new repayment plan for the placement which shall be the basis for monitoring the implementation of the placement restructuring plan.

On an ongoing basis, at a minimum on a quarterly basis, the Bank monitors the implementation of the entire restructuring plan and of cash flows of the debtor.

4.2.6 Credit risk early warning system

Credit risk early warning system is established and provides a timely identification of debtors carrying an increased risk and adequate qualitative and quantitative early warning indicators of credit risk are defined.

4.2.7 Placement classification process

Bank established an adequate process of classifying placements according to the Decision on the classification of placements and off balance sheet liabilities of credit institutions.

The Bank carries out value adjustments for on-balance sheet items and form provisions for risk-bearing off-balance sheet items in accordance with International Accounting Standards and International Financial Reporting Standards, taking into account the minimum requirements referred to in the Decision on the classification of placements and off-balance sheet liabilities of credit institutions.

4.2.8 Monitoring of credit risk bearing portfolio

In accordance with the Decision on the classification of placements and off-balance sheet liabilities of credit institutions, the Bank within internal act prescribed:

- the criteria for the classification of placements and off-balance sheet liabilities on the basis of which a credit institution is exposed to credit risk,
- the method of determining losses arising from credit risk,
- the method of determining value adjustments, impairment of on-balance sheet items and provisions for off-balance sheet items,
- rating of instruments of collateral for receivables, and
- keeping of credit records.

Implementation of Bank's internal acts (policies, procedures, methodologies, instructions, manuals) enables adequate compliance within regulatory requirements regarding monitoring of credit risk bearing portfolio.

4.3 RULES ON MARKET AND LIQUIDITY RISK MANAGEMENT

The Bank has, according to the prescribed regulation, set out and implemented appropriate policies and procedures for managing market risks. The Bank has also set up appropriate and efficient system of management and continuous tracking of the overall Bank’s portfolio, in this sense all interest bearing balance sheet items, balance sheet items that generate FX risk and other types of market risk as well as balance sheet items that generate cash flows and therefore belong to the process of management and control of liquidity risk. The process of identification, evaluation, measurement and management of market risks and liquidity risk is being conducted on continuous basis, while encompassing the overall Bank’s portfolio which is subject to market risks and liquidity risk. Exposure to interest rate risk is managed via regular analysis of the development of interest bearing assets, liabilities and off-balance sheet items as well as changes of interest rate risk limits in accordance with internal procedures and the CNB’s regulatory requirements. Calculation of interest rate risk is based on the CNB’s model of the change of the Bank’s economic value in case of the standard 200 basis point interest rate shock. Furthermore, the process of reporting on interest rate risk is tracked on daily, monthly and quarterly basis via various reports, which represent the current state and development of the Bank's interest rate risk and utilization of specific risk and exposure limits. These reports enable efficient risk management and timely as well as efficient decision making.

Exposure to FX risk is being managed via regular analysis of the development of FX-sensitive assets, liabilities and off-balance sheet items as well as changes of FX risk limits in accordance with internal procedures. Furthermore, the process of FX risk reporting is being conducted on daily, monthly and quarterly basis via various reports that display the current state and the development of the Bank's FX risk as well as utilization of specific limits. These reports enable efficient risk management and timely as well as efficient decision making.

Liquidity risk exposure is being managed via regular analysis of the development of future cash flows as well as changes of liquidity risk limits in accordance with internal procedures. Furthermore, the process of liquidity risk reporting is being conducted on daily, monthly and quarterly basis via various reports that display the current state and the development of the Bank's liquidity risk as well as utilization of specific limits. These reports enable efficient risk management and timely as well as efficient decision making.

Further information on market and liquidity risk management are described in the Annual Report 2016 as published on the Addiko Bank d.d. official web site (www.addiko.hr).

4.4 RULES ON OPERATIONAL RISK MANAGEMENT

4.4.1 General rules on operation risk management

Operational Risk is the risk of a loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal, model and reputational risk, but not strategic 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 Croatian National Bank.

Operational risk management process of the Bank 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 the 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.

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. Continuous monitoring of the risk is carried out and the improvement of policies, processes and methodologies of operational risk management in accordance with the development of professional disciplines and requirements of regulators and all other relevant bodies.

Established methods enable proactive approach for identification and analysis of the risk and determination of the treatment of the risk and taking measures that can lead to successful operational risk management.

Continuous monitoring of the activities related to operational risk management has Committee on operational and other (reputational, legal and strategic) risks that represents the body for approval and discussion of strategic issues related to the monitoring and management of the risks at the level of the Bank.Reports presented to the Committee allow raising of the awareness of the risk areas in the Bank, exchange of views and discussion of all the relevant participants about operational risk management topics.

The need for risk treatment can be identified through quantitative or qualitative methods of risk management.

Quantitative risk measurement (except for calculation of capital requirements pursuant to

Regulation (EU) No. 575/2013) includes the process of identification, classification, processing and reporting of losses caused by operational risk (actual or potential). Any employee of the Bank must immediately report the loss caused by the operational risk to the responsible person for monitoring the operational risk on the level of the organizational unit. After discovering a potential loss, analysis of the event is performed, and data related to the event have to be entered into the database for recording losses. Depending on the amount and frequency of the loss treatment of the risk should be determined (accept, transfer, reduce, avoid) and appropriate measures should be implement and monitored in order to prevent the recurrence of the risk situations that could lead to serious negative consequences.

Qualitative risk measurement includes scenario analysis for losses that have low frequency but with significant consequences on yearly basis, risk assessments that are associated with the implementation of the new products/entering into new markets, outsourced activities, project management and execution of the internal control system which includes risk assessment of the business processes and testing of the effectiveness of the controls.

Risk assessment in business processes is carried out in the business segments in order to estimate potential losses related to operational risk management and in order to make assessment of the adequacy of existing controls in relation to the identified risk exposure. With such qualitative method, the Bank assesses the processes and activities with respect to a potential vulnerability. Management Board of the Bank is reported on the most important risks and associated controls including recommendations for improving the control and possible improvements in business processes.

The Bank is conducting the scenario analysis for the assessment of losses/events that have low frequency, but if they occur they can have a major impact on Bank business. Scenario analysis represents the possible scenario and does not include the actual losses but Bank is using it in order to successfully prepare the procedures in identified key scenarios.

The process of introduction/implementation of the new products or modification of the existing products/entry into new markets/project implementation represents the important tool for identifying the risk and proactively managing the risks. In the above mentioned processes Bank is carried out of risk assessment, determine the measures and implement controls in order to prevent the occurrence of losses.

The internal control system as part of operational risk represents the sum of measures designed and implemented to reduce risks in business processes. It is based on a process-oriented approach and is a key component of all business processes of the Bank that have impact on reporting. The main objective of the internal control system is to reduce risks within business processes by establishing an adequate process control and continuous improvement of the processes in order to enable accurate financial and regulatory reporting.

Reporting on operational risk exposure has been established in a way to ensure timely and effective reporting to the Bank's management and Group. Bank's management is regularly reported on all relevant operational risk events: proposed measures for reducing or avoiding of operational risk events, results of held trainings, conducted analysis and ad-hoc reports.

Operational risk management strategy is defined once a year, in order to prevent the occurrence of operational risk events (expected and unexpected losses) and serves as a tool for decreasing of operational risk losses.

4.4.2 Business continuity management

The Bank has established a business continuity management process that ensures business continuity and limits the negative effects in case of a disaster or other major incidents or events that might greatly jeopardize or disrupt the business.

Business continuity management is an integral part of the risk management of the Bank.

The principles on which the business continuity process was established are in accordance with the requirements of international standards and best international practices in the field of business continuity management.

Business continuity planning is based on the business impact analysis and the risk assessment whereby business functions and the impact of unavailability of certain business processes and system resources necessary for the running of these processes on the Bank are being analyzed.

An integral part of the business impact analysis are: identification of key business functions and processes which are important for the accomplishment of the mission and objectives of the Bank's, analysis of the business consequences that may result from an interruption of key business functions and processes, the identification of requirements for recovery after the appearance of interruptions and identification of key activities and resources required to recovery of interrupted business functions and processes.

The risk assessment considers the threats, the likelihood of their realization, the size of the impact on Bank's operations in the case of realization of the threats, the existing level of protection from the occurrence of the analyzed threats, and the size of the risk arising on the basis of information collected.

Based on the conducted analysis of business processes, analysis of the impact on the business and risk analysis are developed business continuity plans to ensure business continuity and the timely restoration of critical business activities of the Bank, as well as limiting and reducing the losses that could arise as a result of the event of a serious disruption or discontinuation.

Within the business continuity plans are defined resources and set procedures that are necessary to restart the interrupted key processes and their implementation at an acceptable level. Resources within the plans include the necessary locations, equipment, systems, employees, and information in the required form and on the media which is critical for the performance of these processes identified during the business impact analysis. The Bank pays particular attention of ensuring the availability of information system resources necessary for the running of critical business processes.

The business continuity plans are adjusted to the changes of the Bank's business processes, its environment and information system and are regularly updated and tested in order to be effective and consistent with these changes.

The process of business continuity management of the Bank complies with relevant regulatory and supervisory obligations which the Bank must fulfill, and is regularly subject to audits conducted by the internal audit, independent auditors and regulatory bodies.

4.4.3 Antimoney laundering and terrorist financing

Bank's Regulations for implementing the Anti Money Laundering and Terrorist Financing Law defines money laundering as every undertaking of actions aimed at concealing the true source of money, property or rights suspected to have been obtained in an illegal manner in the country or abroad. In accordance with the mentioned Regulations, the following was adopted: a list of indicators for identifying suspicious transactions, a list of off-shore and non-cooperative countries, the consolidated list of private individuals and entities suspected of terrorism (Embargo list), a statement on beneficial ownership, a risk valuation form (separate for private individuals and legal entities) and questionnaire on the implementation of anti money laundering measures intended for other banks when opening loro account.

The same Regulations defined the risk of money laundering or terrorist financing as the risk of misusing the Bank's financial system for money laundering or terrorist financing by client, i.e. a business relationship, transaction, product or service might be directly or indirectly used for money laundering o terrorist financing. Accordingly, defined and explained in detail are factors for:

- determining risk and acceptability of type and group of clients,
- determining risk and acceptability of a business relationship,
- determining the acceptability of a correspondent relationship with the fictive bank,
- determining the risk of the transactions and
- determining the risk of products and services.

Person authorized for anti money laundering, his/her deputies which are participating in implementation of Anti Money Laundering and Terrorist Financing Law are organizationally located within Legal and Compliance department as separate and distinct expert function responsible directly to the Bank's Management Board.

4.4.4 Information system management and risk's deriverd from the use of information system

General information othe use of information system

In the management of its information system, Bank is governed by applicable legislation and its own business strategy.

Pursuant to that, internal acts and quality management documents have been passed, regularly updated and distributed to all (relevant) employees through an internal system of quality document management. The parent acts which frame the way the information system is managed and form the basis for the creation of additional quality documents are:

- Information system strategy
- Information system operational plan
- Organizational structure and committees for information system management
- Reporting to the Management Board and the Supervisory Board on the functionality of the information system.

In organizational sense, the management of the information system takes place among two committees:

- ORG/IT Committee

- Project Portfolio Committee
- in addition to the Management Board as an umbrella body that approves decisions of these committees.

The framework of responsibilities of the mentioned committees cover all aspects relevant to the effective management of the system - from the monitoring of the legislation and consequent harmonization of existing internal regulations and the adoption of new ones, at the general level and at the level of monitoring information system security; assessment and approval of outsourcing and analysis of risks associated with outsourcing; approval and monitoring of projects; through defining ways, criteria and reporting procedures as well as the actual reporting to the Management Board and the Supervisory Board; all the way to controlling the functionality and security of the information system as a whole.

Information system risk management and management of the related risks

The information system risk management is regulated by a number of quality documents deriving from the following parent internal documents, which are based on the legal requirements:

- Methodology and the process of managing information risks
- Methodology of managing the risk of outsourcing
- Assessment of the risks associated with outsourcing
- Minimum safety requirements when introducing new systems

These documents cover in detail the processes of risk assessment and information risks management, allocation of responsibilities, as well as the way of monitoring the level of risks and stipulated preventive and corrective measures. The process of the risk management for outsourced activities is described hereinafter under the section of other risks.

Assessment of information risks represents the entire process of identification and assessment of the risks to which the information is exposed from the standpoint of confidentiality, availability, integrity and other properties. Risk assessment is carried out and supervised by the "Project team". The team is composed of representatives of the biggest organizational unit within the bank. The function of the project team is to coordinate all activities related to the management of information risks, providing guidelines for project implementation as well as coordination and creation of key proposals submitted to the Management Board for decision.

Also, the Project team has a sponsor who is usually appointed by the member of the bank's Management Board. The function of the sponsor is to intervene when the process reaches a barrier. After the initial implementation, it is not necessary to keep the risk assessment as a separate project but rather as a repetitive activity with a defined scope.

The process of information risk evaluation and processing must be carried out annually or more frequently in case of certain extraordinary events such as major organizational changes, major changes in the technology, changes in the location, changes in the environment or major incidents.

One or more organizational units, sectors or departments can fall in the scope of the assessment. The evaluation is carried out every year within the agreed scope and in the course of the subsequent assessment it is necessary to re-evaluate the scope and agree on it. The structure of the assessment team additionally depends on the included organizational units or on the scope.

For each organizational unit within the scope it is necessary to make a list of information resources – anything that represents a value to the organization in terms of impact on the security of information. The following can be considered as the information resource: environment, infrastructure, personnel, hardware, software, communications, documents, data, services, standards, criteria and regulations, contracts, policies, standards, guidelines, procedures, records, logs, certificates, evidence, signatures, invoices and other important elements needed for smooth implementation of the process or the elements that arise in the process, including the inputs and outputs of the process.

The consequences are evaluated in a way as to assess how much damage would be inflicted in case of a breach of confidentiality, integrity and availability of information or other factors that are related to resource.

Financial impact	Operative impact	Impact to the public or clients	Impact on employees
- loss of income - loss of property - legal consequences - unforeseen	- loss of ability to perform activities	- slow or unavailable service or product	- decline in morale - drop in productivity - death or injury

Upon completion of the process of risk assessment the results are processed according to the predefined criteria.

For every unacceptable risk one of the following risk processing options needs to be chosen:

1. Selecting the security measure (or measures) from the Annex A of ISO / IEC 27001

2. Transferring the risk to a third party – e.g. conclude an insurance policy or contract with suppliers or partners and thus switch the potential damage to another legal entity

3. Avoiding risk in a way to stop the business activities whose income is lower than the consequence of the very risk, or have such activities transferred to a third party

4. Adopting the risk - this option is only permitted if the damage that would occur from materialization of the risk would be lower than the damage arising from the failure to implement certain activities.

After the procedure of risk management is conducted, a Journal of the risk assessment is written.

Information security

The goal of information security management is the usage efficient, proactive, risk-managed approach, based on internationally accepted information security standards for the identification, assessment, evaluation, monitoring and measuring risk and defining adequate controls for dealing with risk.

Initiatives related to information security management system resulting from the need for a systematic, continuous and pro active approach to risk management.

Fundamental determinants are presented in the " Security Policy" which defines implementation framework of information security management system according to information security international standards ISO27001 and ISO27002, as well as the obligation of compliance with the safety standards of the Group and with the legislation, which is in the area of information systems security primarily defined by the decision of the Croatian National Bank: "Decision on adequate information system management ".

The main goal of information security is managing risks related to the information protection. Adequate measures for avoidance, reduction, transfer or acceptance of risks as well as priorities of protective measures implementation are based on cost and benefit analysis.

The process of information classification is conducted in order to determine the sensitivity and criticality of information for the Bank's business, and their adequate protection, thereby ensuring the interests of the Bank, its partners, owners and clients.

By implementing the information classification procedure, an appropriate classification grade is uniquely assigned. Depending on the classification grades affiliation, measures of protection and handling are defined for sensitive information identified in that way, during their usage, processing, distribution and storage, in order to prevent the loss arising from disrupting the confidentiality, integrity and availability of such information.

Information used in the Bank may arise and outside the Bank, but by receiving in the Bank's information system, in order to protect them, they are seen as information that were created by the Bank and according to that they are classified. Any information should be classified due to the confidentiality, availability and integrity, it should be protected and handled in accordance with the conducted classification, and it must have a defined information owner. Each employee is obliged to handle the classified information in the manner prescribed in the applicable internal documents, primarily Guidelines for proper handling of classified information and Standards for the proper handling of information classified per confidentiality. The information system should support the minimum protection measures of classification grade that is associated with the most classified information in that information system, unless a risk analysis for individual protection measures for certain information system suggests different. Revision of completeness and appropriateness of information classification is conducted through regular periodic process of information classification.

All employees actively participate in the information security process by acceptable handling the information, participating in education and basic processes of information security and by reporting incidents.

Compliance of the Bank in relation to the regulator's requirements, as well as implementation of defined Policy, is checked through auditing done by the independent auditors and by the internal audit.

Information security plan takes into account the need to maintain the quality of the operational implementation of business activity and functionality of following systems, i.e. general development strategy of the Bank.

Maintenance and development of the information system

In order to ensure the proper maintenance and management of the information system development, Bank continuously improves the quality of support to the existing application systems as well as to the supportive infrastructure systems. Special emphasis is put on maintaining a high level of safety at all levels as well as the development of human resources who can support the processes of maintenance and development in the required manner of quality.

The guidelines for the information system maintenance and development are listed in the Information System Strategy which represents the basis for annual development plans.

Taking into account the specific legislation frame, the environment in which it operates, and its own organizational structure, Bank outsources regional and local software solutions to support it business. The relationship with significant external suppliers is based on the provisions of the Decision on outsourcing issued by CNB and the due diligence of the said suppliers is conducted.

A part of the application portfolio is developed, enhanced and extended internally in accordance with the Procedure for internal application development which is closely associated with the Procedure for the upgrade of the information system.

Incident management

Incident management is conducted in accordance with legal regulations, and is described in detail in the following internal documents:

- Manual for incident management

Document is introduced to all employees whose duty is to report every incident, every indication of the incident and any noticed weakness of the information system.

Each observed and reported incident accompanied with the corresponding pre-defined elements is recorded in the central system, while the significant incidents are further reported to the Management Board and additional prescribed measures are carried out.

IT recovery plans

The IT system Recovery Plan includes items such as: determination of critical resources, recording of the key interdependencies; monitoring and reporting of the availability of critical resources; alternative modes; principles of backup and recovery.

IT Continuity Plan (ITCP) complies with the requirements of the business continuity and contains a list of appropriate hardware requirements for critical applications, overview of hardware configurations; it also includes the communication components required for network access to the computer equipment. Data recovery procedures are in place and have been tested to ensure the data availability in the event of a crisis. The responsibilities of employees are duly mapped as well as the methods of notification, exchange and access procedures.

The plan also specifies the damage assessment, the limit values and points relevant for reaching the formal decisions to activate the plan.

ITCP is reviewed as a part of the overall improvement of the applications and systems and is regularly tested. The tests include a comprehensive check of the continuity of processes as well as the exercise of different situations designed to test assumptions and alternative procedures laid out in the plan.

Project management

Project management is regulated by the Hypo Project Management Methodology that defines the process of selecting project ideas with highest value to corporate strategy and the process of execution of selected projects in the most efficient manner together with adequate control during execution. Project management methodology is applied to all projects, including projects related to information systems.

Project Portfolio Committee was established as a decision making body related to project portfolio management process and project portfolio, supervision of the project portfolio, approval of the annual plan of projects, approval of projects which were not included in the annual plan, acceptance of the completion of projects and initiation of the process of project evaluation. Management Board members and all relevant organizational units participate in the Project Portfolio Committee.

The project portfolio is planned yearly, taking into account all relevant parameters of the project proposals (resources, duration, and scope) and the interdependence between different project ideas and projects. Project Portfolio Committee oversees the project portfolio and approves changes and possible deviations during its regular sessions.

4.5 OTHER RISK MANAGEMENT

The Bank established a risk management process which includes a regular and timely risk identification, measurement or assessment, containment and monitoring, including reporting on the risks to which a credit institution is or might be exposed in its operation.

Risk management methodology defining risk management criteria, methods and procedures is adopted. The Bank assesses the potential impact of relevant macroeconomic trends and data on risk exposure and individual portfolios and includes these assessments in significant decisions on risk.

On an ongoing basis Bank identifies the risks to which is or might be exposed in operations and makes analysis of the causes of risk exposure and other risk which Bank regularly measures comprise other risk types.

4.5.1 Concentration risk

Concentration risk arises from each individual, direct or indirect, exposure to one client, or to group of related parties, or to group of exposures connected by common risk factors such as the same industry, the same geographical area, similar businesses or goods, or application of similar credit risk mitigation techniques, which could represent a threat to a survival of a credit institution.

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/GoB 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.

4.5.2 Counterparty 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.

4.5.3 Currency inducted credit risk

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 Bank's internal act.

4.5.4 Country risk

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

Country Risk is a combination of:

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

Country risk is the risk arising from international transactions, and in that time, except for a standard credit risk. 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.

4.5.5 Object risk

Object risk 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),
- Operative 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 retained in Bank's portfolio. Market value, i.e. 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 significant 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.

Holdings in tangible assets

Based on Decision on implementation of Regulation 575/2013 European Parliament and Council from 26.06.2013 A credit institution shall comply with the provisions of this Decision, pertaining holdings of tangible assets, on an individual basis.

Credit institution's total holdings of tangible assets may not exceed 40 percent of the credit institution's eligible capital.

Addiko Bank d.d. keeps holdings in tangible assets in legal frame and percentage of holdings in tangible assets did not exceed, at any point, legal limitation.

At 31.12.2016 percentage of holdings in tangible assets was 11,16%.

In calculating the limits Bank takes net amount of tangible assets shall be taken into account, determined by applying the appropriate measurement method, depending on a classification of tangible fixed assets (cost of investment reduced by any accumulated depreciation and reduced or increased by value adjustment as a result of asset impairment or revaluation, and it can also be additionally reduced by costs to sell in the case of tangible assets held for sale).

Holdings of tangible assets for the first two years after acquisition, which a credit institution acquired in exchange for its claims during the process of financial reconstruction, or in the course of bankruptcy or foreclosure proceedings, or through the realization of collateral received pursuant to the Foreclosure Act shall not be included in the calculation of holdings.

A credit institution shall report to the Croatian National Bank in the manner, within the time limits (quarterly) and on the forms (report MIKI2) prescribed by the Decision governing supervisory reports of credit institutions and the Decision on statistical and prudential reporting .

4.5.6 Residual risk

Residual risk is a 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.

4.5.7 Dilution risk

Dilution risk is a risk of loss due to a reduction in the amount of purchased receivables as a result of cash or non-cash credits to the obligor, 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.

4.5.8 Risk of excessive leverage

Risk of excessive leverage means the risk resulting from an institution's vulnerability due to leverage or contingent leverage that may require unintended corrective measures to its business plan, including distressed selling of assets which might result in losses or in valuation adjustments to its remaining assets.

Leverage means the relative size of an institution's assets, off-balance sheet obligations and contingent obligations to pay or to deliver or to provide collateral, including obligations from received funding, made commitments, derivates or repurchase agreements, but excluding obligations which can only be enforced during the liquidation of an institution, compared to that institution's own funds.

The leverage ratio Bank calculates as a Bank's capital measure divided by that Bank's total exposure measure and it is expressed as a percentage.

For monitoring the risk level in excessive leverage risk management is used calculated financial leverage ratio through the time series of data in accordance with the regulatory obligation of reporting to obtain information on the movement of the leverage ratio and business events that had an impact on the ratio.

4.5.9 Reputationa risk

Reputational Risk is defined as risk of the loss of trust of the integrity of the Bank, which occurs due to the negative public opinion on business practice of the Bank, independently of the fact whether there is a reason for such public opinion or not. The main purpose of reputational risk management is to avoid any possibility of the appearance of crisis situation through protecting the Bank from potential threats to its reputation (i.e. solving the existing threats proactively), and through minimizing the negative consequences of a reputation event when it occurs. Reputational risk management is crucial for the Bank’s stability and business success and includes usage of the quantitative and qualitative methods of reputational risk exposure measurement. Reputational risk management methodology is defined in detail through identification of the potential sources of the reputational risk, controlling and monitoring process, crisis management and reporting. Prevention represents a key element of controlling of the reputational risk. The Bank is trying to avoid reputational risk by having adequate corporate governance, conservative business and risk management strategy, transparent and overall risk management process, by keeping the high capital level and with continuous rising of the awareness on elements which have influence on increasing the reputational risk exposure. All employees of the Bank are included in the reputational risk management including the risk control function as central component which coordinates, analyses and monitors the reputational risk and decentralized component in all organizational parts of the Bank which are in charge of application and daily management of the risk. Key risk indicators are constantly monitored. Reputational risk belongs to the other risk category for which the Bank is allocated the minimum capital requirements. Reporting process is established in a way that ensures the timely and effective reporting on the risk exposure to the Bank's management, regulator and Group.

4.5.10 Legal risk

Legal risk is the risk that arises due to the possibility that the unfulfilled contractual obligations initiated legal proceedings against the Bank as well as made business decisions that are found to be unenforceable negatively affect the business or financial position of the Bank. The Bank has identified types and/or segments of legal risk which are assessed as crucial for business, with purpose of development of efficient process for legal risk management with goal to create stable business environment for the clients and itself.

The Bank conducts quantitative and qualitative assessment of legal risk. Quantitative assessment includes gathering the data on losses arisen due to legal risks. Qualitative assessment is based on the defined matrix of the potential sources of legal risk according to which all the relevant organizational units grade class of risk and estimates Bank exposure to legal risk.

Bank has implemented the importance of managing and monitoring the legal risk through its organizational structure across all business segments, and defined specific policies, procedures and processes and ensure compliance control function (more in chapter compliance risk).

All employees of the Bank are included in the legal risk management including the risk control function as central component which coordinates, analyses and monitors the reputational risk and decentralized component in all organizational parts of the Bank which are in charge of application and daily management of the risk. Legal risk belongs to the other risk category for which the Bank is allocated the minimum capital requirements. Reporting process is established in a way that ensures the timely and effective reporting on the risk exposure to the Bank's management, regulator and Group.

The obligation to make provisions for litigation and legal risk

In accordance with the Law on Credit Institutions, the Decision on the obligation to make provisions for litigations conducted against a credit institution (Official Gazette 01/09, 75/09, 2/10), the Civil Obligation Act, Companies Act, and Civil Procedure Act, Addiko Bank d.d. is, depending on the existence of the risk of loss, required to create a provision for legal claims conduced against the Bank.

Litigation which are the subject or base for making provision, are covering all proceedings conducted on court or other competent authority in which the credit institution is sued and whose consequence, if a credit institution losses the litigation, can result as increase in liabilities of credit institutions and the outflow of funds in order to settle these obligations.

Depending on the existence of the risk of losing, the litigations are allocated to the appropriate risk categories (A, B, C) and depending on the assigned risk group reservation of the funds has to be performed.

Provision for litigations is recorded in the Bank's book and reporting is done to competent authorities (Management Board,Supervisory Board, Croatian National Bank).

Detailed information regarding the booking of litigation Bank publicly disclosed in the document "Annual Report 2016" published on the official web site of Addiko Bank d.d. (www.addiko.hr), in the section Notes to the financial statements.

4.5.11 Compliance risk

According to Credit Institutions Act, compliance function was established and it is conducted by a separate organizational unit. Although the task of the compliance function is to determine the existing regulatory non-compliance, a special focus in the work is placed on the preventive action, considering that giving the importance to providing prevention can significantly reduce the potential risk of non-compliance, and thereby mitigate their consequences.

Within the control function of compliance, all operations and activities are conducted in accordance with the Credit Institutions Act, Decision on the internal controls system and Capital Market Act and in accordance with all other relevant bylaws, including the identification and assessment of compliance risk to which the Bank is exposed or could be exposed, advising the Management Board and other responsible persons on the method of application of the relevant regulations, standards and rules, including informing on relevant regulations, standards and rules, estimating the effects that will amendments of relevant regulations and adoption of new regulations have on the Bank's business, verification of compliance of new products or new processes with the relevant regulations, internal acts, standards and codes, advising in the preparation of educational programs related to compliance with regulations, internal acts, standards and codes, supporting the Bank's employees in compliance with ethical standards in their daily work.

The Compliance function submits regular reports to the Supervisory Board, Audit Committee, Bank's Management Board and other bodies in accordance with the law and Bank's internal acts.

The Bank's Management Board periodically, at least once a year, reviews the appropriateness of the procedures and the effectiveness of the control function of compliance.

The control function of Internal Audit in Addiko Bank d.d. within reports on the annual plan execution provides an valuation of the adequacy and effectiveness of measures and activities conducted by control function of compliance.

4.5.12 Strategic, business and profitability risk

Strategic Risk is defined as possibility of loss that could arise from the wrong business decisions or inability to adapt to the changes in business and market environment and similar.

As sub segment of the strategic risk Bank is monitoring business and profitability risk. Strategic, business and profitability risk belongs to the other risk category for which the Bank is allocated the capital requirements.

Business risk is negative, unexpected change in business volume and/or profit margins which can lead to significant losses and thus reduce the market value of the credit institution. Primarily, business risk may be caused by significant deterioration in market environment and changes in market competition or consumer behavior.

Profitability risk (earnings risk) is the risk that occurs due to inadequate composition and allocation of earnings or inability of credit institution to ensure adequate and consistent level of profitability.

The overall strategic risk management framework actually represents the set of preventive and control measures on different levels and in different processes, out of which financial planning and budgeting process making the main element for strategic risk management and control is particularly emphasized.

Bank has developed a framework for strategic risk management that corresponds to risk profile, size and complexity of the Bank, to ensure continuous identification, measurement, monitoring, control and reporting on strategic risks and in accordance with the defined framework incurred the adequate resources for the implementation, monitoring and controlling of the strategy. The Bank has set adequate policies and procedures for capital management and financing needs.

Overall qualitative score of strategic risk is based on expert opinion, and a basis for the this score are realization of plans, assessment of the strategic risk management framework, and expert score of each category of strategic risk defined within the "Strategic Risk Management Policy".

The responsibilities of the management of the Bank's functional departments who are involved in strategic planning and management contains the assistance to the Management Board and senior management in creating strategies in accordance with their responsibilities and functions in the Bank, monitoring of the achieved results, ensuring policies, processes, procedures in a way that is adequate to support a framework for strategic risk management and timely reporting.

4.5.13 Outsourcing risk

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

Outsourcing risk management process includes process of making the decision on the outsourcing activity, risk assessment, selection of the service provider, the process of signing contract and continuous monitoring of the service provider. Continuous monitoring of the service provider covers financial and operational monitoring of the service provider and monitoring of the quality of the service and support through daily operational work. If outsourced activity is classified as significant material activities, additional analysis of the service provider must be conducted on the location of the service provider. Results of monitoring are documented.

Through all segments of business Bank has implemented the importance of managing and monitoring of the risk, and defined specific policies, procedures and processes.

4.6 LARGE EXPOSURE AND CONNECTIONS CRITERIA

4.6.1 Large exposure definition

Exposure of an Institution to one person or to a group of connected person presumed to be large exposure if its value is equal or higher than 10 percent of bank's regulatory capital.

The Bank established congruent administrative and accounting processes and adequate mechanisms of internal control with purpose of identification, managing, monitoring, reporting and registration of large exposures and their changes in accordance to Regulation (EU) 575/2013 part 4.

After techniques for credit risk reduction are implemented, in accordance to articles from 399 until 403, the exposure of an Institution to one person or to a group of connected person shall not be higher than 25 percent of bank's regulatory capital.

If this person is the Institution or if group of connected persons includes one or more Institutions than this exposure shall not be higher than 25 percent of bank's regulatory capital or 150 millions EUR, depending of which amount is higher, and under condition that the counted value of exposures is not higher than 25 percent of bank's regulatory capital accordance to all connected persons which are not Institutions and after techniques for credit risk reduction are implemented in accordance to articles from 399 until 403.

Duging the 2016, the Bank did not have exposures to one person or to a group of connected person higher than 25 percent of bank's regulary capital.

4.6.2 Connection criteria definition

For identification and definition of connected persons the following regulations are applied: Credit Institutions Act, Decision on large exposure of credit institutions, Regulation EU No. 575/2013, Corporate Law, and other law and internal acts that defines identification of connected persons.

Group of connected persons is formed in accordance to definition and in line with article 4 item 1 point 39 of Regulation EU No 575/2013.

Connected companies are legally independent companies which mutually can be as:

1. company with majority part or majority power of decision in other company
2. dependent and leading company
3. company of concern
4. companies with mutual investment and
5. companies connected with entrepreneurial contracts.

Bank defines types and subtypes of connections as follows:

1. Proprietary and managing connection

a) Proprietary connection (is used for evidential of entire proprietary structure)

b) Board members

c) Supervisory Board members

d) Procurist

e) Persons employed based on work contract with special conditions which is concluded with company in which they work

f) Company of concern

g) Companies unified/joined with one/mutual leading are making the concern, and single companies are companies of the concern and they are making a group of connected persons

h) Companies with mutual investments (companies with mutual investments are capital companies with address in Republic of Croatia and which are connected in the way that each company has more than a quarter)

i) Companies connected with entrepreneurial contracts (Contract on business managing; Contract on profit transfer ;....)

j) There is a control indicator

2. Family connections

3. Economy or financial connections - very high business dependence on other person. There is a large possibility that will due to deterioration or improvement of economy and financial conditions of one person come to deterioration or improvement of economy and financial conditions of one or more other persons, and in between there is possibility of transfer of loss, gain or credit capabilities.

For identification of economy and financial connections of persons it is need to evaluate indicators of connections which are defined with decision on large exposures (article 4, paragraph 5).

4. **Indirect investments** – defined within article 3, point 38 and 39 of Credit Institutions Act (indirect depositor and indirect investments);

5. **Potential connection** – this connection is generated automatically based on imported data in system of connected persons, and varieties of connections are:

a) Companies in which the Board member is the same person

b) Companies in which the Supervisory Board member is the same person

c) Companies in which the Board member and Supervisory Board member is the same person

6. **Other connections needed for CNB reporting**

For identification of the relation between any legal or private person and subsidiary company, and which is similar to the control relation from article 3 point 1 of Credit Institution Act, it is need to evaluate the control indicators which are defined by decision on large exposures (article 4).

Connection proven by indicators of control and economic and financial interconnectedness does not necessarily mean that these related persons constitute a single risk for the Bank. Considering this, there is a possibility for Bank in case of confirmed connection based on mentioned indicators to present the prove to CNB that in spite of this connected persons does not represent the same risk for Bank. This will be extreme rare situation, but this possibility still exits.

The control exist in any case in which Bank identify the existence of control indicators regardless if the real control made in that way – this decision should be interpreted in way that is not conceded that person does not have control if person claim that control is not maintained.

In case that one private or legal person is member of two groups of connected persons, according to article 10 paragraph 2 of Decision on large exposures, exposure of credit institution is calculated for each of this two group of connected persons, and the same rule is used for reporting. This will lead to double reporting on exposure, but only for monitoring of exposure for single group of connected persons, because due to identification of total exposure according to the article 151 of Credit Institution Act the exposure to one person is included only once.

4.7 REPORTING TO CROATIAN NATIONAL BANK

Addiko Bank d.d. is obligated to report Croatian National Bank in accordance with Commission's Implementing Regulation (EU) No 680/2014 on supervisory reporting from April 16th 2014 in accordance to Regulation (EU) 575/2013.

Above mentioned Regulation consist of reports that are reported to Croatian National Bank:

1) Reports on own funds and capital requirements,
2) Report on financial information (FINREP),
3) Report on losses stemming from lending collateralized by immovable property
4) Report on large exposures and other largest exposures
5) Report on leverage ratio
6) Report on liquidity coverage requirements and Net Stable Funding requirements

Bank is also obligated to report and prepare supervisory reports in accordance to Decision on supervisory reports of credit institutions (Official Gazette No 119/2015.), article 7, point 1:

1) Balance sheet (BN1)
2) Report on off balance items (IBS)
3) Report on credit risk (RS3)
4) Report on capital investment (UKT4)
5) Report on fixed assets MIKI2)

6) Report on repossessed assets (PIKI1)

7) Report on exposure to clients (ID3)

8) Report on foreign currency induced credit risk (VIKR2)

9) Report on financial assets subject to impairment that are past due or impaired (DNP)

10) Report on remaining maturity of assets and liabilities (ROC1)

11) Report on exposure to issuers of the guarantees (IDZ2)

12) Report on exposure over 5 mio (D5M2)

13) Report on shareholders with 3% and more shares in capital and affiliated persons (PD33)

14) Report on risk provisions (PIV3)

15) Profit and loss report (RN)

16) Trading book – daily balances (KT-DS)

17) Detailed trading book (DKT)

Reports prescribed by Decision on control of interest risk in banking book (Official Gazette, No 41A/2014, 47/2014):

1) Change of economic value of the banking book for position with fixed interest rate (EVKI FKS),

2) Change of economic value of the banking book for position with variable interest rate (EVKI PKS),

3) Change of economic value of the banking book for position with administrative interest rate (EVKI AKS),

4) Total risk weighted position (EVKI ZBR).

Reports prescribed by Decision on control of liquidity risk (Official Gazette, No 41A/2014, 47/2014):

1) Instantly liquid assets (TUI),

2) Expected inflow (OP),

3) Expected outflow (OO),

4) Liquidity ratio (KL),
5) Assumption on position movement (POP)
6) Concentration source (KI).

Reports prescribed by Decision on capital buffers and capital conservation measures (Official Gazette, No 8/2014, 61/2014):

1) Coverage of own funds requirements and capital buffers (ZSK)

5 RISK MANAGEMENT OBJECTIVES AND POLICIES

5.1 STRATEGIES AND PROCESS TO MANAGE THOSE RISKS

Risk management strategy provides a strategic orientation of risk management for all risk types that the Bank is or can be potentially exposed to and which the Bank assessed as material. Risk management strategy is a management tool of highest level for the purposes of the Bank's risk steering and as such it provides a framework for the control, monitoring and limiting risks, which are inherent for the banking business, as well as to ensure the adequacy of the internal capital.

The goal of the Bank is adequate and efficient management of all risk types, which in essence assumes systematic and thought through planning and management as well as maintaining the acceptable levels of risks and profitability. The goal of risk management strategy is to set unique methods and work ethic for all organizational units of the Bank which are authorized to take over certain kinds of risks all with the goal of attaining a more efficient and profitable business operations as well as the compliance with external and internal regulations and acts.

Defining desired level of risks taken is basis for establishment of an efficient and adequate risk management system which in the end includes optimization of risk and return. In addition, risk strategy also serves as a basis for planning the adequacy of the internal capital and capital requirements which are ensuring safe, stable and continuous operations of the Bank.

Purpose of risk strategy is to define framework that defines the way and level of risk-taking for each type of risk, and in certain aspects interaction between two or more risk types. In this way the Bank on time defines and continuously monitors its own risk profile.

Defined goals of the strategy are as follows:

- Risk strategy, in essence, sets up limits for risk appetite in the way that business continuity is always guaranteed,
- Primary goal of the risk strategy is preservation of internal capital and ability to withstand the risk for normal and stress scenario,
- Secondary goal of strategy is to define an adequate and acceptable structures of risk aligned with the Bank's business strategy. Finally, it's necessary to define risk

profile, certain criteria and rules for risk-taking and risk measuring to keep defined risk profile,

- Efficient steering (including data quality) and forward looking approach respecting defined early warning indicators aimed to align internal capital & liquidity adequacy on the long term horizon, in line with defined Bank and Group strategy,
- Risk organizational framework for daily management and decision making process,
- Risk policies and documents framework.

Definition of risk types

Bank is exposed to various types of risks in accordance with the business plan and business strategy. Risks can affect Bank's business operations individually or on a group basis or through the interaction of two or more risk. The Bank on annual level analyzes all assumed commitments and potential risks through the process of risk materiality assessment. Through the process size of exposure, frequency, volatility and level of losses and estimates of losses in future are observed. Risk materiality assessment is basis for defining strategic goals of Bank.

The Bank has prescribed the following risk definitions that are in accordance with definitions prescribed by the CNB's "*Decision on risk management*":

Credit risk	Risk of loss arising from a debtor's failure to meet its financial obligations to a credit institution.
Market risk	Risk that arises from trade or investments into the instruments of assets or equity and liabilities, and arises from changes in interest rates including FX rates, prices of securities and similar.
FX risk	Probability of default arising from changes in FX rates and/or a price change of gold.
Operational risk	Risk of loss resulting from inadequacy or mistakes in the functioning of business processes or systems, intentional or unintentional human acts or losses caused by external events. This definition includes legal and reputational risk, while strategic risk is not included.
Credit spread risk	Credit spread is an integral factor in the market price of any debt securities and it is determined on a daily basis. The risk of price changes for debt securities, which stems from a change in the expected credit worthiness of the borrower reported with CDS curve, is called the credit spread risk.
Concentration risk	Risk that arises from each individual, direct or indirect, exposure to a single person or a group of connected persons or a central counterparty or a group of exposures linked by common risk factors such as the same economic sector, the same geographic region, business activities or commodity, and the use of credit risk mitigation techniques, including in particular risks associated with large indirect credit exposures to a single collateral provider which may lead to losses that could jeopardize further operation of the credit institution or a 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.
FXCR	Risk of loss to which a credit institution granting foreign currency placements or placements with currency clauses additionally exposed and which arises from a debtor's currency risk exposure.

Residual risk	Residual risk is the risk of loss arising when recognized credit risk mitigation techniques used by the credit institution 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.
Liquidity risk	Risk of loss that could occur due to already existing or expected inability of the credit institution to repay its liabilities at their maturity.
Interest rate risk	Risk of loss arising from potential changes in interest rates which have influence on banking book positions.
Reputational risk	Risk of loss of trust into integrity of the credit institution, which occurs due to the negative public opinion on business practice of the credit institution, independently of the fact whether there is a reason for such public opinion or not.
Legal risk	Legal risk results due to a possibility that unfulfilled contractual obligations, court proceedings against credit institutions, as well as unenforceable business decisions negatively affect the business or financial position of the credit institution.
Equity securities risk	Equity securities risk is the risk of the Bank's exposure value loss and related impact on business results which can result from the (none) market value change of equity securities.
Business risk	Business risk is negative, unexpected change in business volume and / or profit margins which can lead to significant losses and thus reduce the market value of the credit institution. Primarily, business risk may be caused by significant deterioration in market environment and changes in market competition or consumer behavior.
Strategic risk	Strategic risk is defined as a possibility of loss that could arise from the wrong business decisions or inability to adapt to the changes in economic environment or improper implementation of business decisions or implementation of new products and services.
Macroeconomic risk	A risk of indirect loss arising from negative i.e. unfavorable change in macroeconomic variables such as inflation, GDP loss, etc.
Outsourcing risk	Outsourcing risk represents the term for all the risks that can arise when the credit institution is contractually delegating of activities to the service providers for services which would normally performed by the Bank itself.
Participation risk	Participation risk is defined as the possibility of potential losses for the credit institution which arise on the basis of the participating of the credit institutions.
Object risk	Object risk is defined as potential losses resulting from market value fluctuations of assets in the Bank's own portfolio.
Property investment risk	The risk of loss resulting from the changes in the market value of the property portfolio of a credit institution.
Country risk 4.4.5	Country risk refers to the ability and willingness of borrowers within a country to meet their obligations towards the credit institution. It is thus a credit risk on obligations advanced across borders. Country Risk is a combination of transfer Risk (for cross boarder) and currency induced credit risk (for currency mismatch).
Dilution risk	Dilution risk means the risk of loss due to a reduction in the amount of purchased receivables as a result of cash or non-cash credits to the obligor, which arises from a legal relationship with the former creditor that is the basis for receivables which are the subject of the purchase.
Risk of excessive leverage	Risk of excessive leverage is the 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.
Credit valuation adjustment risk or "CVA"	"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.
Profitability risk (earnings risk)	Profitability risk (earnings risk) is the risk that occurs due to inadequate composition and allocation of earnings or inability of credit institution to ensure adequate and consistent level of profitability.
Management risk	The risk of loss caused by the fact that a Bank, because of its size, has a limited capacity to establish sophisticated operational mechanisms, systems and controls.
Credit risk	Risk of loss arising from a debtor's failure to meet its financial obligations to a credit institution.

Table 4 List of risks to which Bank is exposed to or could be exposed to

Overview of the basic risk management principles

The Bank's goal, among others, is to follow the business strategy and risk management strategy in order to optimize risk and return to its investments. The Bank ensures a stable market share and significant business results by adjusting risk and return.

The Bank makes adjustment between Bank's risk strategy and business strategy at least once a year. Adjustments between risk and business strategy are made if significant changes in business or risk profile occur.

Clear management of the Bank's risk is enabled by setting the clear risk strategy that is defining a desirable risk level and risk appetite.

Risk taking is, among others, based on certain principles and guidelines:

- Active management of the portfolio and/or parts of the portfolio, that is determination of risk level and analysis of the parameter effecting the risk level,
- Optimization between risk and return,
- Including risk calculation into new products and/or Bank's strategic goals,
- Compliance with regulatory directives and standards,
- Segregation of responsibilities in risk management process,
- Detailed and transparent documentation.

The principles of Risk management policy include the principal behavior rules for risk management within the Bank. These principles form the basis in order to all employees at the maximum possible equal way understand the objectives of risk management within the Bank's organization. Management Board is responsible for defining the main Risk policy principles. The Bank defines the **general overall risk management policy principles**, which are as follows:

- **Risk awareness** – encouraging a corporate culture in order to establish an awareness about risks specific for the Bank's operation through transparent disclosure of information and application of appropriate tools,
- **Risk taking** – the Bank will have a reasonable attitude toward risk taking and will demand a sufficient return for the risks taken**,**
- **Risk management** – the Bank will use all the available risk controlling and management techniques taking into consideration materiality of certain risks and led by a desire to improve them on a continuous basis,

- **Regulatory requirements** – the Bank will implement and meet all the regulatory requirements regarding risk management and control,
- **Risk categorization** – the Bank is managing Credit, Market, Liquidity and Operational risks as main risk categories, while a special attention is also directed to a concentration risk,
- **Consistent treatment** – risks are treated consistently by ex ante and ex post calculations,
- **Independent control** – the Bank will separate business activities from risk management and risk control activities and will establish a suitable segregation of competencies and responsibilities,
- **Regular review** – the Bank will on a regular basis revise all the risk politics dependable in any way on yearly planning and budgeting,
- **New products -** the Bank will analyze all the risks that new products may contain.

In addition to the overall risk management policy principles the Bank also defines the principles for specific individual risk types.

5.2 STRUCTURE AND ORGANISATION OF THE RISK MANAGEMENT FUNCTION

Risk management function is organized within the following divisions:

- Risk control
- Corporate Risk Management
- Retail Risk Management

RISK CONTROL

Risk Control division is directly responsible to Management Board member (CRO). The sector is organized in two departments (Credit Risk Control and Market and Liquidity Risk Control) and one team (Data Quality and Operational Risk Control).

The work of Risk Control division is independent from business processes and activities where risks arise, and it has been established in a manner to avoid conflict of interest among responsibilities.

Main activities of Risk Control division are described as follows:

- risk analysis including the identification, measurement, evaluation, controlling and monitoring, as well as reporting on the risks to which the credit institution is or might be exposed in its operation;
- monitoring all significant risks to which the credit institution is exposed;
- implementation/conduction of stress testing;
- verifying the application and efficiency of the methods and procedures for the management of risks to which it is or might be exposed, including the risks arising from macroeconomic environment;
- examining and evaluating the adequacy and efficiency of internal control systems in the risk management process;
- assessing the adequacy and documentation of the risk management methodology;
- participating in development and reviewing the risk management strategy and policy development;
- participating in the development, application and supervision over the functioning of the risk management methods and models;
- making proposals and recommendations for the appropriate risk management;

- analyzing, monitoring and reporting on the adequacy of the credit institution’s internal capital (ICAAP) and reviewing the strategies and procedures for the assessment of the necessary internal capital;
- analyzing the risks of new products or new markets;
- reporting to the Supervisory Board, Management Board the appropriate committee established by the Supervisory Board on risk management and other interest groups (regulators, management of organizational areas) on risk management;
- reporting to the Supervisory Board and Management Board, the appropriate committee established by the Supervisory Board on risk management on its own work;
- coordinating preparation of the recovery plan, tracking indicators and reporting to the Management Board on the values of selected indicators, creating scenarios and implementing stress testing of recovery plans;
- making other verifications necessary for adequate risk control.

CORPORATE RISK MANAGEMENT

The role of Corporate Risk Management is related to the credit process in the part of the formal and logic control of the overall documentation which forms the grounds for the decision making on the portfolio of risk products of the bank, monitoring of approved exposures and prevention of migration of bank clients into NPL status and also minimizing the loss arising from the NPL portfolio through financial restructuring (rehabilitation) by applying best practices for bankruptcy proceedings (legal procedures and / or out-of-court settlements for liquidation of insurance instruments as well as bankruptcy proceedings).

Corporate Risk Management is primarily responsible for:

- approval of credit risk in line with delegated credit autority,
- monitoring of credit risk and prevention migration to NPL status,
- restructuring and bankruptcy proceedings NPL's portoflio and decisions in accordance with local limits

The department is under the standard hierarchical reporting line towards the Management Board Member with CRO (Chief Risk Officer) function and is organized in two departments:

- underwriting and
- management risk assets.

RETAIL RISK MANAGEMENT

Retail Risk Management is division, directly responsible to Management Board member (CRO). The role of the unit is to manage Retail Risk according to budget and strategic goals through:

- design, optimization and implementation of Retail Risk related Policies and Processes,
- analyzing and monitoring quality of Retail portfolio,
- identification of current and potential problems / risks with impact on retail credit exposure and/or loss,
- control of Retail credit risk processes,
- implementation of centralized Underwriting process and Underwriting of non standard / high tickets.

This division is organized in three departments:

- review and freud mangement,
- risk portfolio management and
- underwriting

5.3 SCOPE AND TYPE OF REPORTING SYSTEM AND RISK MEASURING SYSTEM

Risk management in the Bank is defined as a complete process which is supported in the form of a system solution.

This system solution is based on the four main phases:

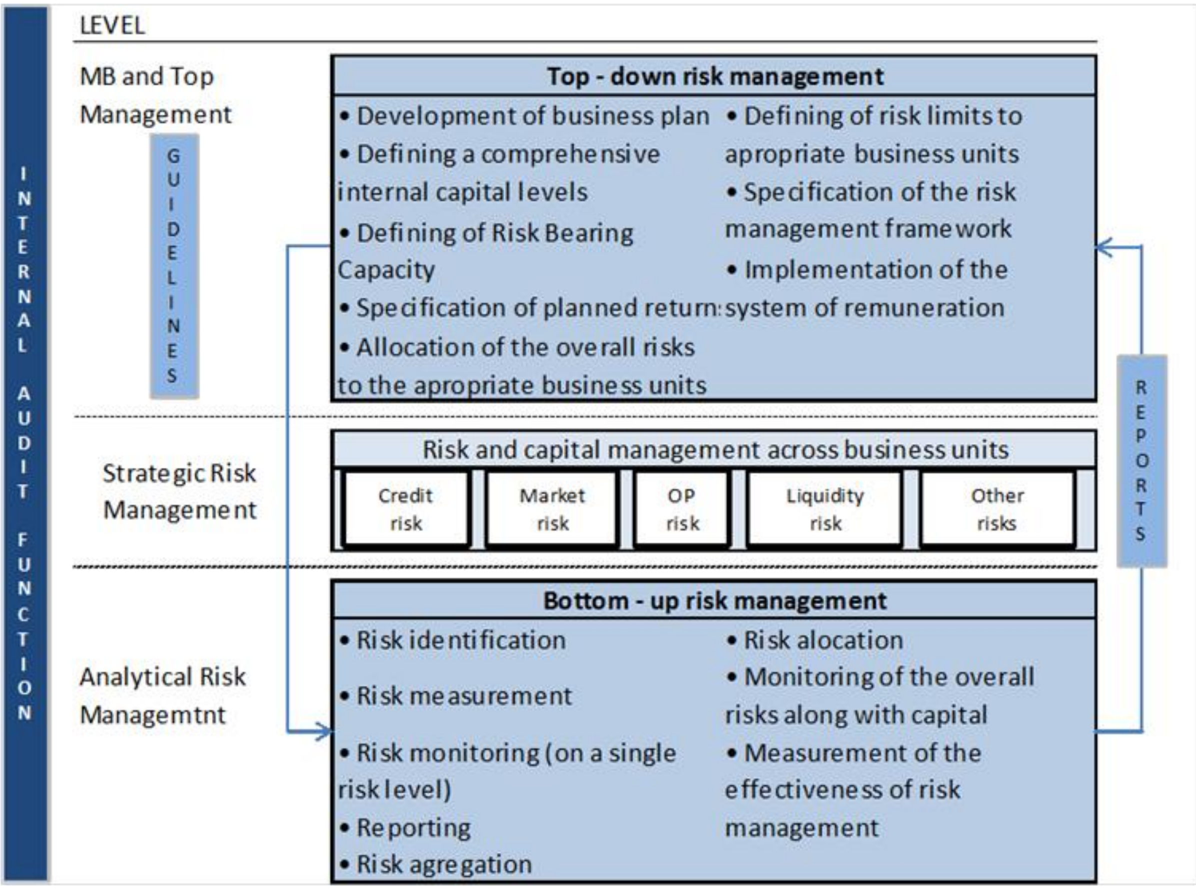
Identification of risk,

Quantification of risk,

Risk management and

Controlling and reporting of risk.

To achieve the required efficiency level of investment and risk, Management Board must have robust approach to policies and procedures that manage with operations of the Bank. On the other hand, senior management must have clear and timely information about risk and return.



Picture 4 **Framework of capital planning**

TOP-DOWN RISK MANAGEMENT

Bank Management Board defines general business plan by defining overall goals and business plan.

General business plan also includes risk management strategy in which one are specified risks which bank is ready to take over, methods for measuring, monitoring and reporting for taken over risks. These guidelines are conducted through the Bank in order to achieve the final goal.

One of the most important elements of risk management strategy is specification of total level of internal capital and Bank's appetite for risks. Risk appetite directly affects Bank's reputation, risk of institution i.e. its external rating. After defining desired level of internal capital and total internal capital requirements it is necessary to determine way of internal capital allocation. Allocation model of internal capital directly affects business decisions of business units. For example, new investments as well as additional risks that occur can be realized only if defined limits allow this and only if new investments generating sufficient returns to satisfy hurdle rate[7].

Strategic framework defined by the Management Board is supported by analytical risk management which allows indispensable methodological guidelines and data.

BOTTOM-UP RISK MANAGEMENT

Bottom-up risk management includes identification and risk measurement, and also monitoring and reporting. That also includes an aggregation of individual risks in a single measure of risk, risk allocation, determination of efficiency between risks and returns and finally monitoring the overall risk profile in relation to the Bank capital.

Finally, Bank must determine contribution for each individual risk (for each business unit and institution) and overall risk position. The Bank defines methods that will achieve desired risk allocation in accordance with the business model and portfolio structure, because one measure is not applicable to complete portfolio structure.

Bank includes all materially assessed risks into internal capital planning process. To cover the complete risk profile of the Bank and overall risk spectrum it is necessary that the planning of internal capital includes all material risks.

Risk management processes are set up at the top of the organization and are mirrored by clear decision making and quantitatively oriented Bank's business policies. Goals by products and business units have to be identified from such policies as well as the

[7] Indicates the minimum of expected return for entering into an investment

maximum level of acceptable riskiness. On the other hand, from the controlling and reporting point of view (in bottom-up process) a consolidated system of risk reporting is developed.

5.4 METHODS FOR HEDGING AND MITIGATING RISK

The Bank uses standard credit risk mitigation techniques (instruments of collateral) and derivative financial instruments for risk hedging. Credit risk mitigation techniques are described in chapter 16 of this document.

Derivative financial instruments used by the Bank include interest rate, cross currency and FX swap and FX forward contracts whose value changes as a result of interest rate and FX changes. Derivatives can be concluded as standardized contracts on regulated markets or individually with a counterparty. Swap arrangements are used to hedge risk exposure that arose due to unfavorable movements in interest rates and exchange rates, and for the FX liquidity transformation.

6 REGULATORY CAPITAL

Information related to regulatory capital published in this chapter is aligned with Regulation (EU) No 575/2013 of European Parliament and Council and Implementing Regulation No 1423/2013.

ASSETS HRK '000	Audited financial statements	Regulatory scope balance sheet	Link to Anex VI
Cash and balances with Croatian National Bank	3,764,974		
Financial assets at fair value through profit or loss, excluding derivatives	32,157	31	a
Derivative financial assets	614	296	b
Placements with and loans to other banks	112,544		
Loans and receivables	12,264,104	67,213	l
Available for sale financial assets	4,009,587		
thereof: unrealized gains- available for sale porftolio	14,801	14,801	c
Assets acquired in lieu of uncollected receivables	10,428		
Investment property	8,929		
Property, plant and equipment	242,244		
Intangible assets	35,213		
thereof: intangible assets as deduction item in own capital calculation	35,213	35,213	d
thereof: other intangible assets			
Non-curent assets classified as held for sale	325,729	180	d
Deferred tax assets	39,975		
thereof: deferred tax assets that rely on future profitability and do not arise from temporary differences			
thereof: deferred tax assets that rely on future profitability and arise from temporary differences	39,975	39,975	
Current tax assets	315		
Other assets	141,924		
TOTAL ASSETS	20,988,737		

LIABILITIES HRK '000	Audited financial statements	Regulatory scope balance sheet	Link to Anex VI
Due to other banks	718,109		
Due to customers	15,498,471		
Finance lease liabilities			
Derivative financial liabilities	1,837		
Provisions for liabilities and charges	218,214		
Provisions for losses of CHF loans conversion	14,930		
Other liabilities	20,473		
Subordinated debt	131,048		
thereof: recognized in Tier II	1,803,896		
thereof: not recognized in Tier II	1,280,827	1,280,827	
Capital	523,069		
Share capital			
Ordinary shares	4,992,972		
Preferential shares	4,992,972	4,992,972	f
Share premium			
Loss for the year	59,769	59,769	h, k
thereof: profit of the year HAAInvest - not eligible in own funds	59,631		
thereof: loss of the year eligible in own funds			
(Loss carried forward)/retained earnings	-5,529	-5,529	i
Loss carried forward			
Retained earning from revalorization reserve	-2,682,480	-2,682,480	j, m
Acumulated comprehensive income			
threof: unrealized gains- available for sale portfolio	151,867	151,867	k
Total equity	14,801	14,801	c
Total liabilities and equity	2,581,759		
TOTAL LIABILITIES AND EQUITY	**20,988,737**		

Table 5 Reconciliation of own funds items to audited financial statements

Following table presents main features of the Common Equity Tier 1 instruments and Tier 2 instruments issued by the Bank

		Instruments of Common Equity Tier 1 capital	Tier 2 capital	
	Issuer	ADDIKO BANK AG	ADDIKO BANK AG	ADDIKO BANK AG
1.	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	HRHYBARA0003	NA	NA
2.	Governing law(s) of the instrument	croatian	croatian	croatian
	Regulatory treatment			
3.	Transitional CRR rules	Common equity tier I capital	Tier II capital	Tier II capital
4.	Post-transitional CRR rules	Common equity tier I capital	Tier II capital	Tier II capital
5.	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	solo and (sub)consolidated	solo and (sub)consolidated	solo and (sub)consolidated
6.	Instrument type (types to be specified by each jurisdiction)	Common equity tier I capital	Tier II capital	Tier II capital
7.	Amount recognised in regulatory capital (currency in million, as most recent reporting date)	4,992,972,000	338,568,990	942,257,518
8.	Nominal amount of instrument	4,992,972,000	755,778,700	1,047,845,450
9.a	Issue price	Nominal value of the shares HRK 4.000,00	NA	NA
9.b	Redemption price	NA	NA	NA
10.	Accounting classification	Share capital	Liabilities - amortized cost	Liabilities - amortized cost
11.	Original date of issuance	First issue 08.03.1996, Additional issues	28.3.2012	27.5.2009
12.	Perpetual or dated	Perpetual	Dated	Dated
13.	Original maturity date	Perpetual	29.3.2019	30.6.2021
14.	Issuer call subject to prior supervisory approval	NA	NA	NA
15.	Optional call date, contingent call dates and redemption amount	NA	NA	NA
16.	Subsequent call dates, if applicable	NA	NA	NA
	Coupons / dividends			
17.	Fixed or floating dividend/coupon	Floating dividend	Fixed interest rate	Variable interest rate

		Instruments of Common Equity Tier 1 capital	Tier 2 capital	
	Issuer	ADDIKO BANK d.d.	ADDIKO BANK d.d.	ADDIKO BANK d.d.
18.	Coupon rate and any related indeks	NA	7%	6Month EURIBOR + 4,52%
19.	Existance of a dividend stopper	NA	NA	NA
20.a	Fully descretionary, partially discretionary or mandatory (in terms of timing)	Fully descretionary	Mandatory	Mandatory
20.b	Fully descretionary, partially discretionary or mandatory (in terms of amount)	Fully descretionary	Mandatory	Mandatory
21.	Existance of step up or other incentive to redeem	No	No	No
22.	Noncumulative or cumulative	Nekumulativni	NA	NA
23.	Convertible or non-convertible	NA	NA	NA
24.	If convertible, conversion trigger(s)	NA	NA	NA
25.	If convertible, fully or partially	NA	NA	NA
26.	If convertible, conversion rate	NA	NA	NA
27.	If convertible, mandatory or optional conversion	NA	NA	NA
28.	If convertible, specify instrument type convertible into	NA	NA	NA
29.	If convertible, specify issuer of instrument it converst into	NA	NA	NA
30.	Write-down features	Legal approach	Upon maturity/ conversion in share capital	Upon maturity/ conversion in share capital
31.	If write-down, write-down trigger(s)	Financial loss / unsustainability of regular business	NA	NA
32.	If write-down, full of partial	Fully or partially	NA	NA
33.	If write-down, permanent or temporary		NA	NA
34.	If temporary write-down, description of write-up mechanism	Leagl approach / decision of the General Assembley	NA	NA
35.	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Last	Paid after settlement of liabilities to all creditors	Paid after settlement of liabilities to all creditors
36.	Non-compliant transitioned features	No	NA	NA
37.	If yes, specify non-compliant features	NA	NA	NA

"NA" not applicable

Table 6 Capital instrument’s main features

The table below presents reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions regarding regulatory capital.

Common Equity Tier 1 capital: Instruments and reserves HRK '000		(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) No. 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No. 575/ 2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No. 575/2013
1.	Capital instruments and the related share premium accounts	5,036,379	26 (1), 27, 28, 29, EBA list 26 (3)	
	of which: ordinary shares	4,992,972	EBA list 26 (3)	f
	of which: share premium	43,407	EBA list 26 (3)	h
	of which: preferential shares	0	EBA list 26 (3)	g
2.	Retained earnings	(2,682,867)	26 (1) c	j, m
3.	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	168,615	26 (1)	k, h, m
3.a	Funds for general banking risk	0	26 (1) f	
4.	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	0	488 (2)	g
	Public sector capital injections grandfathered until 1 january 2018	0	483 (2)	
5.	Minority intrests (amount allowed in consolidated CET1)	0	84, 479, 480	
5.a	Independently reviewed interim profits net of any foreseeable charge or dividend		26 (2)	
6.	**Common Equity Tier 1 capital before regulatory adjustments**	**2,522,128**		

Common Equity Tier 1 capital: Instruments and reserves HRK '000		(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) No. 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE- REGULATION (EU) No. 575/ 2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No. 575/2013
Common Equity Tier 1 capital: regulatory adjustments				
7.	Additional value adjustments (negative amount)	-67,540	34, 105	a, b, l
8.	Intengible assets (net of related tax liability) (negative amount)	-35,393	36 (1) b, 37, 472 (4)	d
9.	Empty Set in the EU			
10.	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	0	36 (1) c, 38, 472 (5)	e
11.	Fair value reserves related to gains or losses on cash flow hedges	0	33 (a)	
12.	Negative amounts resulting from the calculation of expected loss amounts	0	36 (1) d, 40, 159, 472 (6)	
13.	Any increase in equity taht results from securitised assets (negative amount)	0	32 (1)	
14.	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0	33 (b)	
15.	Defined-benefit pension fund assets (negative amount)	0	36 (1) e, 41, 472 (7)	
16.	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	0	36 (1) f, 42, 472 (8)	
17.	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institutiori (negative amount)	0	36 (1) g, 44, 472 (9)	
18.	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% treshold and net of eligible short positions) (negative amount)	0	36 (1) h, 43, 45, 46, 49 (2) (3), 79, 472 (10)	
19.	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% treshold and net of eligible short positions) (negative amount)	0	36 (1) i, 43, 45, 47, 48 (1) b, 49 (1) to (3), 79, 470, 472 (11)	
20.	Empty Set in the EU	0		
20.a	Exposure amount of the following items which qualify for a RW of 1250% where the institution opts for the deduction alternative	0	36 (1) k	
20.b	of which: qualifying holdings ouside the financial sector (negativ amount)	0	36 (1) k, 89 to 91	

	Common Equity Tier 1 capital: Instruments and reserves HRK '000	(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) No. 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE- REGULATION (EU) No. 575/ 2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No. 575/2013
20.c	of which: securitisation positions (negative amount)	0	36 (1) k and ii, 243 (1) b, 244 (1) b, 258	
20.d	of which: free deliveries (negative amount)	0	36 (1) k and iii, 379 (3)	
21.	Deferred tax assets arising from temporary differences (amount above 10% treshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	0	36 (1)c, 38, 48 (1) a, 470, 472 (5)	
22.	Amount exceeding the 15% treashold (negative amount)	0	48 (1)	
23.	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	0	36 (1) i, 48 (1) b, 470, 472 (11)	
24.	Empty Set in the EU	0		
25.	of which: deferred tax assets arising from temporary differences	0	36 (1) c, 38, 48 (1) a, 470, 472 (5)	
25.a	Losses for the current financial year (negative amount)	-5,529	36 (1) a, 472 (3)	i
25.b	Foreseeable tax charges relating to CET1 items (negative amount)	0	36 (1) l	
26.	Rgulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	0		
26.a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-14,801		c
	Of which:... filter for unrealised loss 1	-1,682	467	
	Of which:... filter for unrealised loss 2	-13,119	467	
	Of which:... filter for unrealised gain 1		468	
	Of which:... filter for unrealised gain 2		468	
26.b	Amount to be deducted from or added to Comon Equity Tier 1 capital with regard to additionl filters and deducations required pre CRR		481	
	Of which: ...		481	
27.	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)		36 (1) j	

Common Equity Tier 1 capital: Instruments and reserves HRK '000		(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) No. 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No. 575/ 2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No. 575/2013
28.	**Total regulatory adjustments to Common equity Tier 1 (CET1)**	**(123.263)**		
29.	Common Equity Tier 1 capital	2.398.865		
Additional Tier 1 (AT1) capital: Instruments				
30.	Capital instruments and the related premium accounts	-	51, 52	
31.	of which: classified as equity under applicable accounting standards	-		
32.	of which: classified as liabilitie under applicable accounting standards	-		
33.	Amount of qualifying items reffered to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	-	486 (3)	
	Public sector capital injections grandfathered until 1 january 2018	-	483 (3)	
34.	Qualifying Tier capital included in consolidated AT1 capital (including minority intrests not included in row 5) issued by subsidiaries and held by third parties	-	85, 86, 480	
35.	of which: instruments issued by subsidiaries subject to phase out	-	486 (3)	
36.	**Additional Tier 1 (AT1) capital before regulatory adjustments**	-		
Additional Tier 1 (AT1) capital: regulatory adjustments				
37.	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	52 (1)b, 56 a, 57, 475 (2)	
38.	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	56 b, 58, 475 (Ć3)	
39.	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% treashold and net of eligible short positions) (negative amount)	-	56 c, 59, 60, 79, 475 (4)	
40.	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold net of eligible short positions) b(negative amount)	-	56 d, 59, 79, 475 (4)	
41.	regulatory adjustments applied to additional tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-		

	Common Equity Tier 1 capital: Instruments and reserves HRK '000	(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) No. 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No. 575/ 2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No. 575/2013
41.a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-	472, 472 (3)a, 472 (4), 472 (6), 472 (8)a, 472 (9), 472 (10)a, 472 (11)a	
	of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expect losses etc.	-		
41.b	residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	477, 477 (3), 477 (4)a	
	of which items to be detailed line by line, e.g. reciprocal cross holdings in Tier 2 instruments in the capital of other financial sector entities, etc.	-		
41.c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR	-	467, 468, 481	
	Of which:… possible filter for unrealised losses	-	467	
	Of which:… possible filter for unrealised gains	-	468	
	Of which:…	-	481	
42.	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	56 a	
43.	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	-		
44.	**Additional Tier 1 (AT1) capital**	-		
45.	**Tier 1 capital (T1 = CET1 + AT1)**	**2,398,865**		
Tier 2 (T2) capital: instruments and provisions				
46.	Capital instruments and the related share premium accounts	1,280,827	62, 63	
47.	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	-	486 (4)	
	Public sector capital injections gradfathered until 1 January 2018	-	483 (4)	

	Common Equity Tier 1 capital: Instruments and reserves HRK '000	(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) No. 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No. 575/ 2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No. 575/2013
48.	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	87, 88, 480	
49.	of which: instruments issued by subsidiaries subject to phase out	-	486 (4)	
50.	Credit risk adjustments		62 c & d	
51.	**Tier 2 (T2) capital before regulatory adjustments**	**1,280,827**		
	Tier 2 (T2) capital: regulatory adjustments			
52.	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	63 b & i, 66 a, 67, 477 (2)	
53.	Holdings of zhe T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	66 b, 68, 477 (3)	
54.	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% tresholds and net of eligible short positions) (negative amount)	-	66 c, 69, 70, 79, 477 (4)	
54.a	Of which new holdings not subject to transitional arrangements	-		
54.b	Of which holdings existing before 1 January 2013 and subject to transitional arrangements	-		
55.	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short position) (negative amount)	-	66 d, 69, 79, 477 (4)	
56.	Regulatory adjustments applied to Tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-		

	Common Equity Tier 1 capital: Instruments and reserves HRK '000	(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) No. 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No. 575/ 2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No. 575/2013
56.a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-	472, 472(3)a, 472(4), 472(6), 472(8)a, 472(9), 472(10)a, 472(11)a	
	Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc	-		
56.b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) no 575/2013	-	475, 475 (2)a, 475 (3), 475 (4)a	
	Of which items to be detailed line by line , e.g. reciprocal cross holdings in AT1 instruments, direct holdings of non significant investments in the capital of other financial sector entities, etc.	-		
56.c	Amount to be deducated from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	-	467, 468, 481	
	Of which:… possible filter for unrealised losses	-	467	
	Of which:… possible filter for unrealised gains	-	468	
	Of which:…	-	481	
57.	**Total regulatory adjustments to Tier 2 (T2) capital**	**-**		
58.	**Tier 2 (T2) capital**	**1,280,827**		
59.	**Total capital (TC = T1 + T2)**	**3,679,692**		
59.a	Risk weighted assets in respect of amounts subject to pre- CRR treatment and transitional treatments subject to phase out as perscribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	12,506,373		
	Of which:… items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. deffered tax assets that rely on future probability net of related tax liability, indirect holdings of own CET1, etc)	39,975	472, 472 (5), 472 (8)b, 472(10)b, 472 (11)b	

	Common Equity Tier 1 capital: Instruments and reserves HRK '000	(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) No. 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No. 575/ 2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No. 575/2013
	Of which:… items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to bi detailed line by line, e.g. reciprocial cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	-	475, 475 (2)b, 475 (2)c, 475(4)b	
	items not deducated from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital od other financial sector entities, etc.)	-	477, 477(2)b, 477(2)c, 477(4)b	
60.	**Total risk weight assets**	**12.506.373**		
	Capital ratios and buffers			
61.	Common Equity Tier 1 (as a percentage of risk exposure amount)	19,18%	92(2)(a), 465	
62.	Tier 1 (as a percentage of risk exposure amount)	19,18%	92(2)(b), 465	
63.	Total capital (as a percentage of risk exposure amount)	29,42%	92 (2)c	
64.	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1)(a) plus	10,00%	CRD 128, 129, 130	
65.	of which: capital conservation buffer requirement	2,50%		
66.	of which: countercyclical buffer requirement	-		
67.	of which: systemic risk buffer requirement	3,00%		
67.a	of which: Global Systemically Important nstitution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-	CRD 131	
68.	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	-	CRD 128	
69.	[non relevant in EU regulation]	-		
70.	[non relevant in EU regulation]	-		
71.	[non relevant in EU regulation]	-		

Common Equity Tier 1 capital: Instruments and reserves HRK '000		(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) No. 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No. 575/ 2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No. 575/2013
Capital ratio and buffers				
72.	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investments in those entities (amount below 10% treashold and net of eligible short positions)		36(1)h, 45, 46, 472(10), 56c, 59, 60, 475(4) 66c, 69, 70, 477(4)	
73.	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% treshold and net of eligible short positions)		36(1)i, 45, 48, 470, 472(11)	
74.	Empty Set in the EU	-		
75.	Defferd tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	-	36(1)c, 38, 48, 470, 472 (5)	
Applicable caps on the inclusion of provisions in Tier 2				
76.	Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap)	-	62	
77.	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	62	
78.	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)		62	
79.	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		62	
Capital Instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)				
80.	Current cap on CET1 instruments subject to phase out arrangements	-	484(3), 486(2) and (5)	
81.	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	484(3), 486(2) and (5)	
82.	Current cap on AT1 instruments subject to phase out arrangements	-	484(4), 486(3) and (5)	
83.	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	484(4), 486(3) and (5)	
84.	Current cap on T2 instruments subject to phase out arrangements	-	484 (5), 486(4) and (5)	
85.	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	484 (5), 486(4) and (5)	

Table 7 Reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions regarding regulatory capital

7 CAPITAL REQUIREMENTS

7.1 SUMMARY OF THE BANK'S APPROACH TO ASSESSING THE ADEQUACY OF INTERNAL CAPITAL

Qualitative information regarding the process of internal capital adequacy assessment represents an abstract of the internal capital adequacy assessment process itself.

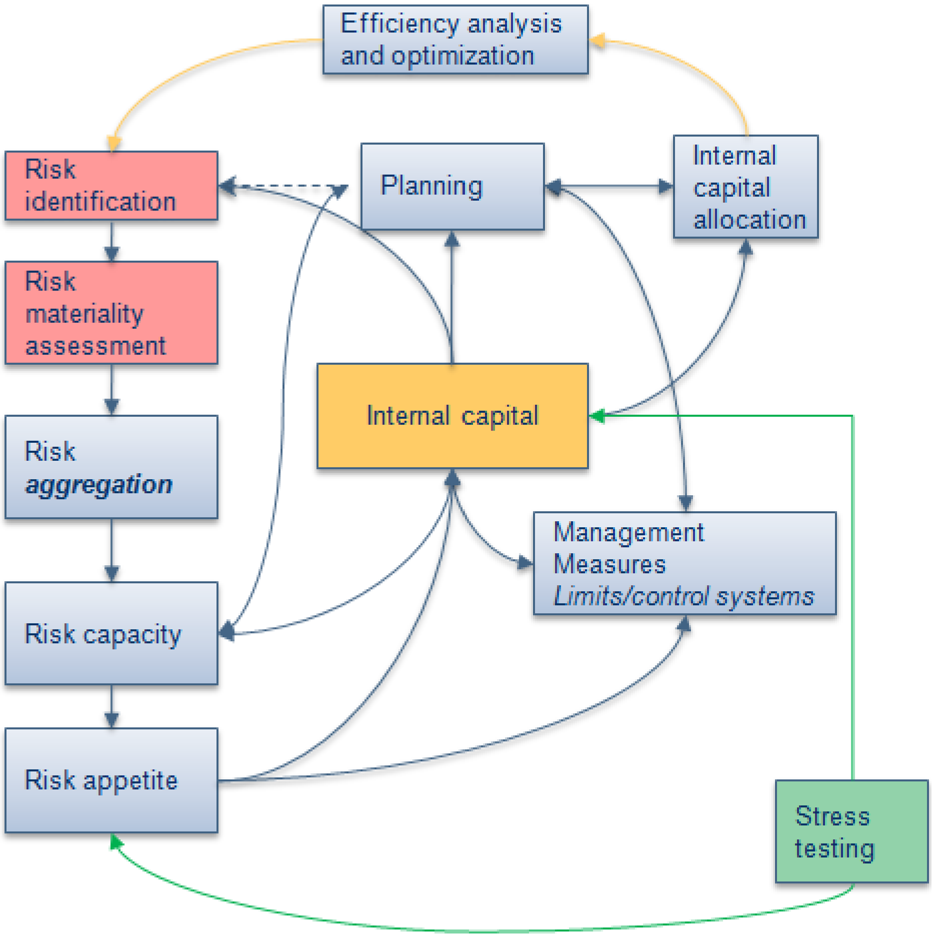
The main purpose of internal capital adequacy assessment process is to determine a positive level of capital high enough to cover all of the risks the Bank is exposed to and are assessed as material. The ICAAP serves as an assessment of internal capital adequacy in relation to the Bank's risk profile and as an implementation of the Bank's strategy appropriate for maintaining an adequate internal capital level.

ICAAP is a continuous process and is reported quarterly. However, certain parts of the ICAAP process such as for example, monitoring of regulatory capital adequacy, calculation of concentration risk, calculation of FX induced credit risk, etc. is done and reported on a monthly basis.

The Bank's ICAAP process consists of the following basic steps:

- Identification and risk materiality assessment (including defining of current and future risk profile),
- Risk quantification resulting with aggregation of risks and calculation of risk capacity,
- Definition of an acceptable risk level,
- Internal capital definition and calculation,
- Comparing internal capital and total risk level – risk-bearing capacity,
- Planning of future requirements for regulatory and internal capital,
- Internal capital allocation for risk coverage,
- Monitoring and controlling,
- Stress testing,
- Risk adjusted performance measures.

Given the fact that above mentioned steps of the ICAAP are directly or indirectly mutually connected and intertwined, connection between them and their mutual influence can be best presented with the following picture:



Picture 5 ICAAP process

Capital planning process is an integral part of the Bank's planning and budgeting process and part of the ICAAP process used for assessing the current and future capital requirements for risks and internal capital.

By capital planning the Bank ensures:

- Coverage of all the planned risks measured through internal capital requirements by desirable planned internal capital level, and
- Coverage of minimum regulatory capital requirements by adequate regulatory capital level.

In this way the Bank ensures safety, stability and long-term business continuity, taking the risks in accordance with its desirable risk profile and in line with the previously defined risk appetite.

Management of capital structure is adjusted to the Bank's business strategy, type and level of risks taken.

Regulatory and internal capital planning is based, among others, on the following factors:

- The level of risk weighted assets according to the planned growth of balance sheet and off-balance sheet exposure items,
- Planned levels of capital requirements for risks within the ICAAP process,
- Structure of additional capital in accordance with contracted maturities,
- Dividends payment policy,
- Maintenance of the internal capital adequacy on the desired level.

The basic process of the internal capital adequacy assessment process is the process of risk materiality assessment on the overall Bank level. This process defines, determines and measures the level of risks taken where also guidelines and processes are established with the purpose to manage risks in a most adequate manner. Risk materiality assessment relates to all the risks which are a result bank's business activities and taking on risks in different business events, which finally represent (potential) an exposure to the Bank. Risks taken are classified as material and immaterial i.e. significant and not significant.

The Bank manages risks by identifying, quantifying and controlling them, and reporting about them according to internal policies and procedures that specify management of certain risk type. The Bank continually assesses risk profile and regularly reviews the internal capital adequacy assessment process by continuously developing methodologies for capital requirement calculation concerning all risk types with the purpose of more efficient risk management at the Bank level.

Bank calculates the risk-weighted exposure amounts in accordance with Chapter 2 of Part Three, Title II, 8 % of the risk-weighted exposure amounts for each of the exposure classes specified in Article 112, Regulation (EU) No 575/2013 and disclose information on capital requirements as follows:

Capital requirement for credit risk	HRK '000
1. Exposures to central governments or central banks	66,307
2. Exposures to local and regional self-governments	11,667
3. Exposures to public sector entities	1,848
4. Exposures to multilateral development banks	0
5. Exposures to international organizations	0
6. Exposures to institutions	71,288
7. Exposures to corporate entities	306,478
8. Retail exposures	259,182
9. Exposures secured by mortgages	26,755
10. Exposures in default	58,414
11. Exposures to items associated with particularly high risk	6,596
12. Exposures in the form of covered bonds	0
13. Exposure in for of short-term claims on institutions and corporate	0
14. Exposure to collective investments undertakings (CIU)	0
15. Exposure in the form of investment fund investing	1,524
16. Other exposures	104,454
I. Total capital requirement for credit risk under Standardised Approach	**914,513**
Capital requirements for settlement/delivery risk	
Exposure to settlement/delivery risk	0
II. Total capital requirements for settlement/delivery risk	**0**
Capital requirements for market risks	
1. Capital requirements for position risk	1,560
Capital requirement for specific position risk of debt instruments	0
Capital requirement for general position risk of debt instruments	1,560
Capital requirement for risk of investing in own equity instruments	0
3. Capital requirement for foreign exchange risk	6,208
4. Capital requirement for commodities risk	0
5. Capital requirements for the risk of exceeding permitted exposure limits	0
III. Total capital requirements for market risks	**7,768**
Capital requirement for operational risk	
Capital requirement for operational risk calculated by applying the:	
1. basic indicator approach	
2. standardised approach	78,098
3. advanced approach	
IV. Total amount of capital requirements for operational risks	**78,098**
Capital requirements for credit value adjustment risk (CVA)	
Capital requirements for credit value adjustment risk (CVA) calculated by applying the:	
1. advanced method	
2. standardised method	130
3. based on OEM	
V. Total amount of capital requirements for credit value adjustment risk (CVA)	**130**
TOTAL CAPITAL REQUIREMENTs (I. + II. + III. + IV. + V.)	**1,000,510**

Table 8 Capital requirements

8 EXPOSURE TO COUNTERPARTY 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.

The Bank tracks counterparty credit risk according to standardized approach defined in the EU’s Regulation 575/2013 and publicly discloses information on interest rate contracts, contracts concerning fx rates and gold, contracts concerning equities, contracts concerning commodities other than precious metals, derivatives and other contracts. In this context, the Bank is also publicly disclosing repo and reverse repo contracts. Calculation of Wrong-way risk exposure is not being calculated and in accordingly Wrong-way risk exposure is not publicly disclosed.

In the following, for the aforementioned contracts, the Bank discloses gross positive fair value of contracts, netting benefits, netted current counterparty credit risk exposure, collateral held and net derivatives counterparty credit risk exposure. The Bank also discloses gross exposure within repo and reverse repo contracts, exposure value adjustment (EVA), credit valuation adjustment (Cvam) and net current exposure to counterparty credit risk. Finally, the Bank also discloses aggregated calculation of the applied methods for counter party credit risk exposure.

Counterparty credit risk exposure	Gross positive fair value of contracts	Netting benefits	Netted current counterparty credit risk exposure	Collateral held	Net derivatives counterparty credit risk exposure
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Interest rate contracts	209	0	337	0	337
Contracts concerning FX rates and gold	405	0	2,903	0	2,903
Contracts concerning equities	0	0	0	0	0
Contracts concerning commodities other than precious metals	0	0	0	0	0
Derivatives	0	0	0	0	0
Other contracts	0	0	0	0	0
TOTAL	**614**	**0**	**3,241**	**0**	**3,241**

Table 9 Counterparty credit risk exposure on the account of interest rate contracts, contracts concerning fx rates and gold, contracts concerning equities, contracts concerning commodities other than precious metals, derivatives and other contracts

Counterparty credit risk exposure	Gross exposure according to contract	Exposure value adjustment (EVA	Credit valuation adjustment (Cvam)	Net current exposure to counterparty credit risk
	HRK '000	HRK '000	HRK '000	HRK '000
Repo and reverse repo contracts	73,476	-	67,932	5,544
TOTAL	**73,476**	**-**	**67,932**	**5,544**

Table 10 Counterparty credit risk for repo and reverse repo contracts

Applied methods	Counterparty
	HRK '000
Original exposure method	-
Mark-to-market method	3,241
Standardized method	5,544
Internal model	-

Table 11 Counterparty credit risk exposures under the applied methods

9 CREDIT RISK ADJUSTEMENTS

Credit risk is the risk of loss due to non-fulfillment of a debtor's contractual liability towards credit institution.

Inducement of credit risk is one of the basic derivatives of banking business considering the fact that the Bank's business is based on commercial banking, and the exposure, out of which taking the credit risk arises, results right from conducting the Bank's basic activity as an integral part of business. Risk management organization is constituted in a way that the Bank manages credit risk from the very moment of the occurrence of credit risk exposure – doing business with clients, further monitoring, administrative business and credit risk exposure measurement as well as the credit risk assessment alone through the following organizational parts of the Bank: Risk Controlling, Corporate Risk Management and Retail Risk Management.

The Bank defined in its internal acts the scope and the method of controlling the credit risk, as well as the scope and frequency of internal reporting. Also, the Bank ensured timely and effective credit risk analysis and monitoring, as well as timely reporting to the relevant levels of management about the quality of the whole portfolio established in a way to ensure timely taking of adequate measures with the purpose of decreasing the credit risk.

Concerning the qualitative information on credit and dilution risk it should be noted that the Bank defines past due items according to CNB's definition, i.e. as exposures in relation to which the credit institution determined that the obligor is past due on his obligations for more than 90 days and that the amount of due debt is material (i.e. that it exceeds the amount of 1.750 HRK).

Counting the days of delinquency starts with the day when the total amount of debtor's all overdue liabilities (where the contractual maturity date has expired) based on all contractual relationships has become larger than 1.750 HRK.

Furthermore, under the impaired exposures the Bank considers all those exposures that are according to CNB's Decision on the classification of placements and off-balance sheet liabilities of credit institutions8 and related Bank's internal acts classified into risk category B or worse.

[8] Official Gazette 1/2009, 75/2009, 2/2010 i 89/2013

Calculation of risk provisions is made on a single and portfolio level according to IFRS and CNB's legislation (i.e. Decision on the classification of placements and off-balance sheet liabilities of credit institutions).

Amount of impairment losses depends on client's credit standing and operating result, taking into account collateral amount or third party guarantee.In addition to the above mentioned impairment losses on assets, the Group also acknowledges impairment losses in profit and loss statement on balance and off-balance items, that were not impaired by the previously mentioned basics, i.e. which are classified into risk category A. According to the CNB's legislation level of value adjustments for these exposures may not be lower than 0,80% of the total balance of placements, i.e. off-balance sheet items graded A.

The following table presents the total amount of exposures after taking into account the netting agreement and excluding the effects of credit risk mitigation, and the average amount of exposures over the reporting period broken down by different types of exposure classes:

Gross amount of credit risk exposure by exposure classes (HRK '000)	On-balance sheet exposures which are subject to credit risk		Off-balance sheet exposures which are subject to credit risk		Securities financing transactions		Derivative financial instruments and long settlement transactions	
	Total amount	Average amount	Total amount	Average amount	Total amount	Average amount	Total amount	Average amount
Exposures to central governments or central banks	6,091,086	6,506,543	0	0	0	0	0	0
Exposures to regional governments or local authorities	188,433	197,939	2,051	2,994	0	0	0	0
Exposures to public sector entities	404,906	897,877	3,785	2,952	0	0	0	0
Exposures to institutions	2,101,380	2,351,738	1,197	1,209	42,183	206,355	2,819	3,220
Exposures to corporates	4,527,851	4,499,770	1,117,995	1,033,341	31,293	29,535	422	1,150
Retail exposures	4,593,253	4,919,497	645,369	648,995	0	0	0	0
Exposures secured by mortgages on immovable property	954,227	913,208	4,146	4,434	0	0	0	0
Exposures in default	1,856,077	1,840,884	130,830	135,822	0	0	0	0
Exposures associated with particulary high risk	56,928	70,831	0	9,836	0	0	0	0
Equity exposures	21,032	20,496	0	0	0	0	0	0
Other items	1,572,575	1,390,454	2,681	2,594	0	0	0	0
TOTAL	22,367,749	23,609,238	1,908,055	1,842,177	73,476	235,889	3,241	4,370

Table 12 **Total and average amount of exposures** by different types of exposure classes

The table below shows the geographic distribution of the exposures broken down into significant areas by material exposure classes:

Significant geographic areas in total exposure	On-balance sheet exposures which are subject to credit risk	Off-balance sheet exposures which are subject to credit risk	Securities financing transactions	Derivative financial instruments and long settlement transactions	TOTAL
	Amounts in HRK '000				
RESIDENTS - HR	20,089,116	1,903,884	73,476	2,152	22,068,628
CITY OF ZAGREB	***11,073,675***	***626,908***	***73,476***	***2,005***	***11,776,065***
Exposures to central governments or central banks	5,850,780	0	0	0	5,850,780
Exposures to regional governments or local authorities	39	0	0	0	39
Exposures to public sector entities	1,844	0	0	0	1,844
Exposures to institutions	107,524	194	42,183	1,730	151,631
Exposures to corporates	2,257,195	487,528	31,293	275	2,776,291
Retail exposures	1,205,112	90,723	0	0	1,295,835
Exposures secured by mortgages on immovable property	194,470	99	0	0	194,569
Exposures in default	476,098	47,647	0	0	523,745
Exposures associated with particulary high risk	24,691	0	0	0	24,691
Equity exposures	2,796	0	0	0	2,796
Other items	953,126	718	0	0	953,844
OSIJEK-BARANJA COUNTY	***2,278,475***	***403,709***	***0***	***0***	***2,682,185***
Exposures to central governments or central banks	55	0	0	0	55
Exposures to regional governments or local authorities	36,218	659	0	0	36,878
Exposures to public sector entities	381,000	3,018	0	0	384,018
Exposures to institutions	3	0	0	0	3
Exposures to corporates	473,060	120,284	0	0	593,345
Retail exposures	770,149	232,682	0	0	1,002,831
Exposures secured by mortgages on immovable property	167,575	275	0	0	167,851
Exposures in default	287,667	46,283	0	0	333,950
Exposures associated with particulary high risk	8,765	0	0	0	8,765
Equity exposures	1,985	0	0	0	1,985
Other items	151,997	507	0	0	152,504

Significant geographic areas in total exposure	On-balance sheet exposures which are subject to credit risk	Off-balance sheet exposures which are subject to credit risk	Securities financing transactions	Derivative financial instruments and long settlement transactions	TOTAL
	Amounts in HRK '000				
RESIDENTS - HR	20,089,116	1,903,884	73,476	2,152	22,068,628
SPLIT-DALMATIA COUNTY	***980,208***	***101,178***	***0***	***0***	***1,081,386***
Exposures to regional governments or local authorities	42,742	487	0	0	43,229
Exposures to public sector entities	1	0	0	0	1
Exposures to institutions	2,646	0	0	0	2,646
Exposures to corporates	367,068	57,789	0	0	424,857
Retail exposures	304,928	32,926	0	0	337,854
Exposures secured by mortgages on immovable property	76,966	2,643	0	0	79,609
Exposures in default	130,570	7,191	0	0	137,761
Other items	55,287	142	0	0	55,429
PRIMORJE-GORSKI KOTAR COUNTY	***919,483***	***114,206***	***0***	***0***	***1,033,689***
Exposures to regional governments or local authorities	13,946	0	0	0	13,946
Exposures to public sector entities	1,400	237	0	0	1,636
Exposures to institutions	0	0	0	0	0
Exposures to corporates	113,646	55,876	0	0	169,522
Retail exposures	428,796	31,411	0	0	460,207
Exposures secured by mortgages on immovable property	114,403	0	0	0	114,403
Exposures in default	196,429	25,824	0	0	222,254
Exposures associated with particulary high risk	1,542	0	0	0	1,542
Other items	49,320	858	0	0	50,178
ZAGREB COUNTY	***667,730***	***90,087***	***0***	***0***	***757,816***
Exposures to regional governments or local authorities	13,774	10	0	0	13,784
Exposures to public sector entities	1	0	0	0	1
Exposures to institutions	0	0	0	0	0
Exposures to corporates	151,602	65,199	0	0	216,801
Retail exposures	274,155	24,210	0	0	298,365
Exposures secured by mortgages on immovable property	58,646	0	0	0	58,646
Exposures in default	119,376	579	0	0	119,954
Exposures associated with particulary high risk	6,293	0	0	0	6,293
Other items	43,883	90	0	0	43,972

Significant geographic areas in total exposure	On-balance sheet exposures which are subject to credit risk	Off-balance sheet exposures which are subject to credit risk	Securities financing transactions	Derivative financial instruments and long settlement transactions	TOTAL
	Amounts in HRK '000				
ISTRIA COUNTY	***655,268***	***48,038***	***0***	***0***	***703,306***
Exposures to regional governments or local authorities	1,744	33	0	0	1,776
Exposures to corporates	117,089	17,325	0	0	134,414
Retail exposures	295,467	29,507	0	0	324,974
Exposures secured by mortgages on immovable property	73,501	954	0	0	74,455
Exposures in default	109,144	219	0	0	109,364
Exposures associated with particulary high risk	14,461	0	0	0	14,461
Other items	43,861	0	0	0	43,861
VARAŽDIN COUNTY	***472,067***	***40,717***	***0***	***0***	***512,784***
Exposures to regional governments or local authorities	12,325	500	0	0	12,825
Exposures to public sector entities	11,743	0	0	0	11,743
Exposures to institutions	334	0	0	0	334
Exposures to corporates	267,587	27,913	0	0	295,500
Retail exposures	86,179	11,719	0	0	97,898
Exposures secured by mortgages on immovable property	26,082	0	0	0	26,082
Exposures in default	48,064	526	0	0	48,590
Exposures associated with particulary high risk	1,175	0	0	0	1,175
Other items	18,577	58	0	0	18,636
VUKOVAR-SRIJEM COUNTY	***409,559***	***85,668***	***0***	***0***	***495,227***
Exposures to regional governments or local authorities	1,390	115	0	0	1,505
Exposures to public sector entities	167	520	0	0	687
Exposures to corporates	133,563	36,187	0	0	169,751
Retail exposures	152,694	48,637	0	0	201,331
Exposures secured by mortgages on immovable property	34,868	0	0	0	34,868
Exposures in default	52,317	87	0	0	52,404
Other items	34,560	122	0	0	34,682
BROD-POSAVINA COUNTY	***369,115***	***116,992***	***0***	***0***	***486,106***
Exposures to central governments or central banks	5	0	0	0	5
Exposures to regional governments or local authorities	170	0	0	0	170
Exposures to public sector entities	8,192	0	0	0	8,192
Exposures to corporates	59,066	90,449	0	0	149,515
Retail exposures	151,126	26,410	0	0	177,536
Exposures secured by mortgages on immovable property	43,009	0	0	0	43,009
Exposures in default	67,327	70	0	0	67,398
Other items	40,220	62	0	0	40,282

Significant geographic areas in total exposure	On-balance sheet exposures which are subject to credit risk	Off-balance sheet exposures which are subject to credit risk	Securities financing transactions	Derivative financial instruments and long settlement transactions	TOTAL
	Amounts in HRK '000				
DUBROVNIK-NERETVA COUNTY	***439,585***	***33,749***	***0***	***0***	***473,334***
Exposures to central governments or central banks	1	0	0	0	1
Exposures to regional governments or local authorities	2,640	0	0	0	2,640
Exposures to public sector entities	1	0	0	0	1
Exposures to corporates	37,686	11,485	0	0	49,171
Retail exposures	258,293	21,105	0	0	279,399
Exposures secured by mortgages on immovable property	25,024	0	0	0	25,024
Exposures in default	88,341	1,159	0	0	89,500
Exposures associated with particulary high risk	0	0	0	0	0
Exposures to institutions and corporates with a short-term credit assessment	0	0	0	0	0
Equity exposures	0	0	0	0	0
Other items	27,598	0	0	0	27,598
ZADAR COUNTY	***406,485***	***36,174***	***0***	***0***	***442,659***
Exposures to regional governments or local authorities	7,695	5	0	0	7,700
Exposures to public sector entities	1	0	0	0	1
Exposures to institutions	0	0	0	0	0
Exposures to corporates	94,382	17,157	0	0	111,539
Retail exposures	193,119	18,768	0	0	211,887
Exposures secured by mortgages on immovable property	30,991	174	0	0	31,165
Exposures in default	53,653	70	0	0	53,722
Other items	26,644	0	0	0	26,644
POŽEGA-SLAVONIA COUNTY	***243,559***	***44,521***	***0***	***0***	***288,080***
Exposures to regional governments or local authorities	42,314	10	0	0	42,324
Exposures to public sector entities	13	10	0	0	23
Exposures to institutions	0	0	0	0	0
Exposures to corporates	69,701	27,382	0	0	97,083
Retail exposures	73,253	17,021	0	0	90,275
Exposures secured by mortgages on immovable property	11,528	0	0	0	11,528
Exposures in default	27,010	98	0	0	27,108
Other items	19,740	0	0	0	19,740

Significant geographic areas in total exposure	On-balance sheet exposures which are subject to credit risk	Off-balance sheet exposures which are subject to credit risk	Securities financing transactions	Derivative financial instruments and long settlement transactions	TOTAL
	Amounts in HRK '000				
VIROVITICA-PODRAVINA COUNTY	***254,099***	***27,456***	***0***	***0***	***281,555***
Exposures to central governments or central banks	4	0	0	0	4
Exposures to regional governments or local authorities	2,047	222	0	0	2,268
Exposures to public sector entities	541	0	0	0	541
Exposures to institutions	0	0	0	0	0
Exposures to corporates	71,974	628	0	0	72,602
Retail exposures	98,324	26,555	0	0	124,879
Exposures secured by mortgages on immovable property	27,265	0	0	0	27,265
Exposures in default	27,060	52	0	0	27,111
Other items	26,884	0	0	0	26,884
OTHER COUNTIES	***919,809***	***134,481***	***0***	***147***	***1,054,436***
Exposures to central governments or central banks	1	0	0	0	1
Exposures to regional governments or local authorities	11,389	10	0	0	11,399
Exposures to public sector entities	2	0	0	0	2
Exposures to institutions	0	0	0	0	0
Exposures to corporates	312,761	102,793	0	147	415,701
Retail exposures	295,168	30,569	0	0	325,736
Exposures secured by mortgages on immovable property	69,900	0	0	0	69,900
Exposures in default	152,079	1,025	0	0	153,105
Other items	78,509	84	0	0	78,593

Significant geographic areas in total exposure	On-balance sheet exposures which are subject to credit risk	Off-balance sheet exposures which are subject to credit risk	Securities financing transactions	Derivative financial instruments and long settlement transactions	TOTAL
	Amounts in HRK '000				
NON-RESIDENTS	2,278,632	4,171	0	1,089	2,283,892
USA	***799,652***	***97***	***0***	***0***	***799,749***
Exposures to institutions	783,620	0	0	0	783,620
Exposures to corporates	1	0	0	0	1
Retail exposures	0	97	0	0	97
Equity exposures	16,027	0	0	0	16,027
Other items	3	0	0	0	3
GERMANY	***461,319***	***183***	***0***	***0***	***461,502***
Exposures to institutions	457,050	0	0	0	457,050
Exposures to corporates	0	0	0	0	0
Retail exposures	2,017	183	0	0	2,199
Exposures in default	6	0	0	0	6
Other items	2,246	0	0	0	2,246
OTHER COUNTRIES	***1,017,661***	***3,892***	***0***	***1,089***	***1,022,642***
Exposures to central governments or central banks	240,241	0	0	0	240,241
Exposures to institutions	750,202	1,004	0	1,089	752,294
Exposures to corporates	1,468	0	0	0	1,468
Retail exposures	4,472	2,848	0	0	7,320
Exposures in default	20,935	0	0	0	20,935
Equity exposures	224	0	0	0	224
Other items	119	40	0	0	159
TOTAL	22,367,749	1,908,055	73,476	3,241	24,352,520

Table 13 Geographic distribution of the exposures, broken down in significant areas by material exposure classes

The following table presents the distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs:

Main industry types in total exposure	On-balance sheet exposures which are subject to credit risk	Off-balance sheet exposures which are subject to credit risk	Securities financing transactions	Derivative financial instruments and long settlement transactions	TOTAL
	Amounts in HRK '000				
NATURAL PERSON	***7,446,179***	***554,976***	***0***	***0***	***8,001,155***
of which SME	***399,519***	***36,086***	***0***	***0***	***435,604***
Exposures to corporates	171,370	6,926	0	0	178,296
Retail exposures	4,196,540	542,498	0	0	4,739,038
Exposures secured by mortgages on immovable property	952,478	210	0	0	952,687
Exposures in default	1,300,898	2,871	0	0	1,303,769
Exposures associated with particulary high risk	255	0	0	0	255
Other items	824,638	2,473	0	0	827,110
FINANCIAL AND INSURANCE ACTIVITIES	***4,387,637***	***55,978***	***42,183***	***1,874***	***4,487,671***
of which SME	***0***	***0***	***0***	***0***	***0***
Exposures to central governments or central banks	3,173,902	0	0	0	3,173,902
Exposures to public sector entities	956	0	0	0	956
Exposures to institutions	388,971	194	42,183	1,874	433,221
Exposures to corporates	60,703	55,576	0	0	116,279
Exposures in default	13	0	0	0	13
Equity exposures	17,404	0	0	0	17,404
Other items	745,688	208	0	0	745,897
PUBLIC ADMINISTRATION AND DEFENCE; COMPULSORY SOCIAL SECURITY	***2,866,236***	***2,288***	***0***	***0***	***2,868,523***
of which SME	***0***	***0***	***0***	***0***	***0***
Exposures to central governments or central banks	2,676,944	0	0	0	2,676,944
Exposures to regional governments or local authorities	188,433	2,051	0	0	190,484
Exposures to public sector entities	845	237	0	0	1,082
Exposures to corporates	3	0	0	0	3
Exposures in default	10	0	0	0	10

Main industry types in total exposure	On-balance sheet exposures which are subject to credit risk	Off-balance sheet exposures which are subject to credit risk	Securities financing transactions	Derivative financial instruments and long settlement transactions	TOTAL
	Amounts in HRK '000				
ACTIVITIES OF EXTRATERRITORIAL ORGANISATIONS AND ENTITIES	***1,952,653***	***1,004***	***0***	***945***	***1,954,601***
of which SME	***0***	***0***	***0***	***0***	***0***
Exposures to central governments or central banks	240,241	0	0	0	240,241
Exposures to institutions	1,712,410	1,004	0	945	1,714,358
Exposures to corporates	3	0	0	0	3
CONSTRUCTION	***1,308,110***	***353,095***	***0***	***0***	***1,661,205***
of which SME	***165,913***	***145,225***	***0***	***0***	***311,138***
Exposures to corporates	1,181,956	250,605	0	0	1,432,561
Retail exposures	34,749	19,996	0	0	54,746
Exposures secured by mortgages on immovable property	251	954	0	0	1,205
Exposures in default	74,036	81,539	0	0	155,575
Exposures associated with particulary high risk	17,118	0	0	0	17,118
WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	***1,125,765***	***271,927***	***0***	***158***	***1,397,850***
of which SME	***543,794***	***146,436***	***0***	***158***	***690,388***
Exposures to corporates	802,953	220,403	0	158	1,023,514
Retail exposures	148,760	31,917	0	0	180,676
Exposures secured by mortgages on immovable property	547	2,643	0	0	3,190
Exposures in default	172,847	16,964	0	0	189,811
Exposures associated with particulary high risk	658	0	0	0	658
Equity exposures	1	0	0	0	1
MANUFACTURING	***1,042,019***	***353,983***	***0***	***217***	***1,396,219***
of which SME	***476,928***	***93,830***	***0***	***179***	***570,937***
Exposures to corporates	867,211	336,638	0	217	1,204,067
Retail exposures	73,937	16,029	0	0	89,967
Exposures in default	96,648	1,316	0	0	97,964
Equity exposures	1,985	0	0	0	1,985
Other items	2,236	0	0	0	2,236

Main industry types in total exposure	On-balance sheet exposures which are subject to credit risk	Off-balance sheet exposures which are subject to credit risk	Securities financing transactions	Derivative financial instruments and long settlement transactions	TOTAL
	Amounts in HRK '000				
AGRICULTURE, FORESTRY AND FISHING	***390,732***	***13,007***	***0***	***0***	***403,739***
of which SME	***207,570***	***6,475***	***0***	***0***	***214,045***
Exposures to corporates	336,531	9,248	0	0	345,779
Retail exposures	5,509	3,759	0	0	9,269
Exposures secured by mortgages on immovable property	364	0	0	0	364
Exposures in default	48,328	0	0	0	48,328
EDUCATION	***384,279***	***1,838***	***0***	***0***	***386,118***
of which SME	***7,421***	***741***	***0***	***0***	***8,162***
Exposures to public sector entities	376,604	979	0	0	377,583
Exposures to corporates	2,345	118	0	0	2,463
Retail exposures	4,206	741	0	0	4,947
Exposures in default	1,124	0	0	0	1,124
ACCOMMODATION PROVIDING AND FOOD SERVICE ACTIVITIES	***343,573***	***26,717***	***0***	***0***	***370,289***
of which SME	***150,119***	***19,322***	***0***	***0***	***169,441***
Exposures to corporates	229,744	23,715	0	0	253,459
Retail exposures	31,038	2,902	0	0	33,940
Exposures in default	82,790	100	0	0	82,890
PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	***256,603***	***76,480***	***31,293***	***0***	***364,376***
of which SME	***97,018***	***57,113***	***31,293***	***0***	***185,423***
Exposures to public sector entities	3,986	2,545	0	0	6,531
Exposures to corporates	203,485	41,713	31,293	0	276,491
Retail exposures	27,769	6,046	0	0	33,815
Exposures in default	19,301	26,175	0	0	45,476
Exposures associated with particulary high risk	644	0	0	0	644
Equity exposures	1,418	0	0	0	1,418
OTHER INDUSTRY TYPES	***863,963***	***196,762***	***0***	***47***	***1,060,773***
of which SME	***398,520***	***166,234***	***0***	***47***	***564,801***
Exposures to public sector entities	22,515	24	0	0	22,538
Exposures to corporates	671,546	173,053	0	47	844,646
Retail exposures	70,744	21,480	0	0	92,224
Exposures secured by mortgages on immovable property	588	340	0	0	927
Exposures in default	60,080	1,866	0	0	61,946
Exposures associated with particulary high risk	38,254	0	0	0	38,254
Equity exposures	224	0	0	0	224
Other items	13	0	0	0	13
TOTAL	22,367,749	1,908,055	73,476	3,241	24,352,520

Table 14 Distribution of exposures by industry or counterparty type, broken down by exposure categories

The residual maturity breakdown of all the exposures, broken down by exposure classes is presented in the following table:

Residual maturity	On-balance sheet exposures which are subject to credit risk	Off-balance sheet exposures which are subject to credit risk	Securities financing transactions	Derivative financial instruments and long settlement transactions
	HRK '000	HRK '000	HRK '000	HRK '000
Exposures to central governments or central banks	***6,091,086***	***0***	***0***	***0***
up to 90 days	3,408,133	0	0	0
from 91 to 180 days	372,859	0	0	0
from 181 days to 1 year	547,091	0	0	0
> 1 year	1,763,003	0	0	0
Exposures to regional governments or local authorities	***188,433***	***2,051***	***0***	***0***
up to 90 days	18,117	1,338	0	0
from 91 to 180 days	10,257	200	0	0
from 181 days to 1 year	20,920	303	0	0
> 1 year	139,139	210	0	0
Exposures to public sector entities	***404,906***	***3,785***	***0***	***0***
up to 90 days	11,097	1,804	0	0
from 91 to 180 days	26,643	1,351	0	0
from 181 days to 1 year	25,256	0	0	0
> 1 year	341,910	630	0	0
Exposures to institutions	***2,101,380***	***1,197***	***42,183***	***2,819***
up to 90 days	324,316	1,185	42,183	2,698
from 91 to 180 days	77,165	13	0	52
from 181 days to 1 year	114,504	0	0	0
> 1 year	1,479,069	0	0	68
exposures without defined maturity	106,327	0	0	0
Exposures to corporates	***4,527,851***	***1,117,995***	***31,293***	***422***
up to 90 days	983,737	195,260	31,293	153
from 91 to 180 days	345,157	197,888	0	0
from 181 days to 1 year	639,895	244,904	0	52
> 1 year	2,559,063	479,942	0	217
Retail exposures	***4,593,253***	***645,369***	***0***	***0***
up to 90 days	498,080	251,251	0	0
from 91 to 180 days	169,436	158,124	0	0
from 181 days to 1 year	318,439	64,334	0	0
> 1 year	3,607,298	171,660	0	0

Residual maturity	On-balance sheet exposures which are subject to credit risk	Off-balance sheet exposures which are subject to credit risk	Securities financing transactions	Derivative financial instruments and long settlement transactions
	HRK '000	HRK '000	HRK '000	HRK '000
Exposures secured by mortgages on immovable property	***954,227***	***4,146***	***0***	***0***
up to 90 days	32,331	1,873	0	0
from 91 to 180 days	16,340	234	0	0
from 181 days to 1 year	33,888	246	0	0
> 1 year	871,667	1,793	0	0
Exposures in default	***1,856,077***	***130,830***	***0***	***0***
up to 90 days	1,076,454	24,391	0	0
from 91 to 180 days	36,586	40,126	0	0
from 181 days to 1 year	60,451	33,299	0	0
> 1 year	682,585	33,015	0	0
Exposures associated with particulary high risk	***56,928***	***0***	***0***	***0***
up to 90 days	6,598	0	0	0
from 91 to 180 days	4,187	0	0	0
from 181 days to 1 year	8,220	0	0	0
> 1 year	37,922	0	0	0
Equity exposures	***21,032***	***0***	***0***	***0***
up to 90 days	3,171	0	0	0
from 91 to 180 days	0	0	0	0
from 181 days to 1 year	0	0	0	0
> 1 year	0	0	0	0
exposures without defined maturity	17,862	0	0	0
Other items	***1,572,575***	***2,681***	***0***	***0***
up to 90 days	121,312	609	0	0
from 91 to 180 days	75,871	163	0	0
from 181 days to 1 year	76,165	665	0	0
> 1 year	584,483	1,243	0	0
exposures without defined maturity	714,744	0	0	0
TOTAL	22,367,749	1,908,055	73,476	3,241

Table 15 Residual maturity breakdown of all the exposures, broken down by exposure classes

In the following table impaired exposures, past due exposures and changes in the value adjustments and provisions are presented by significant industry or counterparty type.

Certain industry type is significant if exposure of that industry type is more than 1% of total exposure.

Main industry types	Amount of impaired placements	Past due exposures	Specific credit risk adjustments	Charges for specific credit risk adjustments during the reporting period
	HRK '000	HRK '000	HRK '000	HRK '000
RETAIL	1,169,349	768,178	930,672	25,935
ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	12,991	9,782	11,406	1,274
ACCOMMODATION AND FOOD SERVICE ACTIVITIES	99,338	9,486	16,266	2,927
WATER SUPPY; SEWERAGE	12,565	133	3,482	2,682
FINANCIAL AND INSURANCE ACTIVITIES	1,269	1,269	1,205	1,582
CONSTRUCTION	171,996	50,097	76,982	-5,618
TRANSPORTING AND STORAGE	28,517	5,616	12,388	2,029
AGRICULTURE, FORESTRY AND FISHING	73,354	25,578	48,065	31,205
REAL ESTATE ACTIVITIES	9,738	3,225	4,552	1,951
MANUFACTURING	115,528	33,785	68,432	12,940
WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	200,192	89,811	112,529	31,215
OTHER INDUSTRY TYPES	59,744	21,571	24,290	1,815
TOTAL	**1,954,581**	**1,018,531**	**1,310,270**	**109,938**

Table 16 Impaired exposures, past due exposures and changes in the valute adjustments and provisions by significant industry

The following table shows the impaired exposures, past due exposures and changes in the value adjustments and provisions by significant geographic areas.

Significant geographic areas	Amount of impaired placements	Past due exposures	Specific credit risk adjustments	Charges for specific credit risk adjustments during the reporting period
	HRK '000	HRK '000	HRK '000	HRK '000
RESIDENTS - HR	**1,933,606**	**1,018,469**	**1,303,320**	**109,202**
ŠIBENIK-KNIN COUNTY	*25,980*	*20,341*	*15,047*	*4,040*
KARLOVAC COUNTY	*21,412*	*8,594*	*18,354*	*9,081*
DUBROVNIK-NERETVA COUNTY	*84,092*	*55,434*	*64,386*	*8,397*
CITY OF ZAGREB and ZAGREB COUNTY	*623,633*	*339,254*	*427,052*	*46,225*
ISTRIA COUNTY	*106,095*	*67,383*	*81,334*	*2,738*
OSIJEK-BARANJA COUNTY	*332,985*	*141,470*	*204,958*	*28,778*
PRIMORJE-GORSKI KOTAR COUNTY	*218,876*	*80,413*	*102,095*	*7,089*
SISAK-MOSLAVINA COUNTY	*34,286*	*15,473*	*22,634*	*3,030*
KRAPINA-ZAGORJE COUNTY	*13,415*	*9,147*	*9,992*	*-1,627*
VIROVITICA-PODRAVINA COUNTY	*27,218*	*18,170*	*22,014*	*1,430*
VARAŽDIN COUNTY	*48,531*	*26,809*	*39,827*	*-3,870*
VUKOVAR-SRIJEM COUNTY	*52,358*	*34,535*	*41,828*	*-1,716*
ZADAR COUNTY	*54,116*	*27,199*	*40,419*	*4,717*
OTHER COUNTIES	*290,609*	*174,247*	*213,381*	*891*
Significant geographic areas	Amount of impaired placements	Past due exposures	Balances of provisions	Charges for provisions (income from the reversal of provisions)
	HRK '000	HRK '000	HRK '000	HRK '000
NON-RESIDENTS	**20,974**	**62**	**6,950**	**737**
GERMANY	*7*	*7*	*7*	*14*
SAD	*0*	*0*	*0*	*1*
UNITED KINGDOM	*1*	*1*	*1*	*5*
FRANCE	*0*	*0*	*0*	*1*
OTHER COUNTRIES	*20,966*	*53*	*6,941*	*715*
TOTAL	**1,954,581**	**1,018,531**	**1,310,270**	**109,938**

Table 17 Impaired exposures, past due exposures and changes in the value adjustments and provisions by significant geographic areas

The final table in this chapter presents the reconciliation of changes in the credit risk adjustments for impaired exposures :

	Opening balance	Increases due to amounts set aside for estimated loan losses during the period	Decreases due to amounts reversed for estimated loan losses during the period	Decreases due to amounts taken against allowances	Other adjustments	Closing balance	Value adjustments recorded directly to the statement of profit or loss
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Specific allowances for financial assets	1,737,226	1,190,237	-1,090,406	-499,945	-34,569	1,302,543	49
Collective allowances for incurred but not reported losses on financial assets	175,670	57,965	-97,196	0	2,652	139,091	0
Total	1,912,896	1,248,202	-1,187,602	-499,945	-31,917	1,441,634	49

Table 18 Reconciliation of changes in the credit risk adjustments for impaired exposures

10 ENCUMBERED AND UNENCUMBERED ASSETS

The Bank discloses information on encumbered and unencumbered assets on consolidated level in accordance with the required information as defined within the European Commission's Implementing Regulation 2015/79 on the amendments of the EU's Regulation 680/2014, which is also aligned with the EU's Regulation 575/2013 and the EBA's Guidelines on the disclosure of encumbered and unencumbered assets, Criteria and dynamics for reporting are defined by the aforementioned documents, and this in accordance with criteria adopted by the Croatian National Bank.

		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets
		010	040	060	090
010	Assets of the reporting institution	2,092,724	0	19,003,265	0
030	Equity instruments	0	0	19,047	19,047
040	Debt securities	120,358	0	4,298,005	4,298,005
120	Other assets	31,469	0	999,909	0

Table 19 Disclosure on encumbered assets- assets (HRK '000)

		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
		010	040
130	Collateral received by the reporting institution	0	77,896
150	Equity instruments	0	0
160	Debt securities	0	77,896
230	Other collateral received	0	0
240	Own debt securities issued other than own covered bonds or ABSs	0	0

Table 20 Disclosure on encumbered assets/received collateral

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	Carrying amount of selected financial liabilities	0	1,436

Table 21 Disclosure on encumbered assets / received collateral and related liabilities (HRK '000)

In accordance with the requirements on importance of public disclosure of encumbered assets, the Bank discloses total funding sources as base for calculation of obligatory reserve, and derivatives are the main sources and types of assets encumbrance. Furthermore, other assets items include positions of cash, material and non-material assets, tax assets, delimited costs, on-balance sheet amounts regarding derivatives and the related balance sheet items.

11 USE OF ECAI'S

The Bank calculates risk-weighted assets for credit risk using the standardized approach.
For the purposes of calculating risk-weighted assets for credit risk, the Bank uses credit assessments and credit quality steps by rating agencies Moody's and Fitch.
Where a credit assessment is available from an eligible ECAI for a specific issuing program or facility to which the item constituting the exposure belongs, the Bank uses this credit assessment to determine the risk weight to be assigned to that item.

The Bank uses credit assessment for the exposure classes as follows:

- exposureos to central governments or central banks,
- exposures to regional governments or local authorities,
- exposures to public sector entities,
- exposures to institutions
- exposures to coporates.

If there are two credit ratings assigned by the nominated ECAI that are according to credit quality step classified into different risk weights, the Bank uses the one with a higher (worse) risk weight.

Long term and short term credit assessment

Short- term credit assessments the Bank aggines for short- term assets and off-balance sheet items constituting exposures to institutions and corporate.
Short- term credit assessment applies only to the item the short-term credit assessment refers to and it is not used to derive risk weights for any other item, except in the following cases:

- if a short-term rated facility is assigned a 150% risk weight, then all unrated unsecured exposures on that obligor whether short-term or long-term shall also be assigned a 150% weight;
- if a short-term facility is assigned a 50% risk-weight, no unrated short-term exposure shall be assigned a risk weight than 100%,

Credit quality step	1	2	3	4	5	6
Risk weight	20%	50%	100%	150%	150%	150%

Table 22 Credit quality step and risk weight

For short-term exposures to institutions with a residual maturity of three months or less, and the Bank applies risk weight as follows:

Credit quality step	1	2	3	4	5	6
Risk weight	20%	20%	20%	50%	50%	150%

Table 23 Credit quality step and risk weight

Description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book

Where a credit assessment exists for a specific issuing program or facility to which the item constituting the exposure belongs, this credit assessment is used to determine the risk weight to be assigned to that item.
Where no directly applicable credit assessment exists for a certain item, but a credit assessment exists for a specific issuing program or facility to which the item constituting the exposure does not belong or a general credit assessment exists for the issuer, then that credit assessment is used in either of the following cases:

- it produces a higher risk weight than would otherwise be the case and the exposure in question ranks pari passu or junior in all respects to the specific issuing program or facility or to senior unsecured exposures of that issuer, as relevant;
- it produces a lower risk weight and the exposure in question ranks pari passu or senior in all respects to the specific issuing program or facility or to senior unsecured exposures of that issuer, as relevant

In all other cases, the exposure shall be treated as unrated.

Credit assessments for issuers within a corporate group are not used as credit assessment of another issuer within the same corporate group.

The Bank complies with the standard association published by EBA[10].

[10] Addendum to Consultation Paper – Draft Implementing Technical Standards on the mapping of ECAI's credit assessments under Article 136(1) and (3) of Regulation EU No 575/2013

The exposure values and the exposure values after credit risk mitigation associated with each credit quality step prescribed in Part Three, Title II, Chapter2 as well as those deducted from own funds

Exposures to central governments or central banks

Credit quality step	Risk weight (%)	Total amount of exposure before credit risk mitigation	Total amount of exposure after credit risk mitigation
		HRK '000	HRK '000
	0	5,221,222	6,228,159
	100	828,839	828,839
TOTAL		**6,050,061**	**7,056,998**

Exposures to local and regional self governments

Credit quality step	Risk weight (%)	Total amount of exposure before credit risk mitigation	Total amount of exposure after credit risk mitigation
		HRK '000	HRK '000
	20	53,472	53,437
	100	135,490	135,490
TOTAL		**188,961**	**188,926**

Exposures to public sector entities

Credit quality step	Risk weight (%)	Total amount of exposure before credit risk mitigation	Total amount of exposure after credit risk mitigation
		HRK '000	HRK '000
	0	381,046	392,728
	20	424	424
	100	23,953	23,938
TOTAL		**405,423**	**417,089**

Exposures to institutions

Credit quality step	Risk weight (%)	Total amount of exposure before credit risk mitigation	Total amount of exposure after credit risk mitigation
		HRK '000	HRK '000
	20	763,971	725,569
	50	1,267,157	1,267,157
	100	112,609	112,609
TOTAL		**2,143,737**	**2,105,336**

Exposures to corporate entities

Credit quality step	Risk weight (%)	Total amount of exposure before credit risk mitigation	Total amount of exposure after credit risk mitigation
		HRK '000	HRK '000
	100	5,616,605	4,473,957
	150	5	5
TOTAL		**5,616,611**	**4,473,962**

Retail exposures

Credit quality step	Risk weight (%)	Total amount of exposure before credit risk mitigation	Total amount of exposure after credit risk mitigation
		HRK '000	HRK '000
	75	5,188,506	5,063,086
TOTAL		**5,188,506**	**5,063,086**

Exposures secured by mortgages

Credit quality step	Risk weight (%)	Total amount of exposure before credit risk mitigation	Total amount of exposure after credit risk mitigation
		HRK '000	HRK '000
	35	958,73	958,373
TOTAL		**958,373**	**958,373**

Exposures in default

Credit quality step	Risk weight (%)	Total amount of exposure before credit risk mitigation	Total amount of exposure after credit risk mitigation
		HRK '000	HRK '000
	100	410,386	389,091
	150	274,504	274,120
TOTAL		**684,890**	**663,211**

Exposures to items associated with particulary high risk

Credit quality step	Risk weight (%)	Total amount of exposure before credit risk mitigation	Total amount of exposure after credit risk mitigation
		HRK '000	HRK '000
	150	55,529	54,969
TOTAL		**55,529**	**54,969**

Exposures in the form of investment fund investing

Credit quality step	Risk weight (%)	Total amount of exposure before credit risk mitigation	Total amount of exposure after credit risk mitigation
		HRK '000	HRK '000
	100	19,047	19,047
TOTAL		**19,047**	**19,047**

Other exposures

Credit quality step	Risk weight (%)	Total amount of exposure before credit risk mitigation	Total amount of exposure after credit risk mitigation
		HRK '000	HRK '000
	0	316,557	316,557
	100	1,211,866	1,208,245
	250	39,975	39,975
TOTAL		**1,568,398**	**1,564,777**

12 MARKET RISK EXPOSURE

12.1 INTEREST RATE EXPOSURE FOR POSITION NOT INCLUDED IN THE TRADING BOOK

Interest rate risk refers to the Bank's exposure to interest rate movements, It represents the possibility that movements of interest rates will have adverse impact on Bank's profit or capital.

Interest rate risk arises from:

- Maturity mismatch of the Bank's assets and liabilities, as well as off-balance sheet assets and liabilities,
- Term mismatch of interest rate change of Bank's assets and liabilities, as well as off-balance sheet assets and liabilities,
- Difference in interest rate type and levels in Bank's assets and liabilities, as well as off-balance sheet assets and liabilities,
- Interest rate curves etc.

When calculating interest rate risk exposure in the banking book, the Bank sums up total positions in assets and liabilities and financial derivatives positions (or off-balance sheet assets and liabilities) for all significant and other currencies and for every single time bucket.

It results in total net position for time bucket which is multiplied by the weights regulated by CNB Decision, for every significant currency separately and for other currencies in total. Weights by which net position is multiplied are based on an estimated 200 BP interest rate shock and estimated modified duration for every time bucket. Resulting weighted positions for all time buckets are summed up, which result in net long or net short position for every significant currency separately and all other currencies in total.

Net long and net short positions for all currencies are summed up, which result in total net weighted position in the banking book.

Total net weighted position in the banking book is expressed as absolute value and represents the change of economic value of the credit institution's banking book, which occurred as a result of standard interest rate shock, i,e, parallel positive and negative 200 BP movement of interest rate on a respective yield curve.

When calculating interest rate risk exposure in the banking book, the Bank applies assumptions in line with CNB Decision:

- fixed interest rate positions - allocation according to maturity,
- variable interest rate – allocation according to the remaining time left to the next interest rate change,
- positions for which maturity is not known or cannot be unambiguously determined:
    - foreign currency reserve requirements – allocation to 1 month time bucket,
    - kuna reserve requirements – allocation to 6 to 12 months time bucket,
    - demand deposits, current accounts, gyro accounts (received and given) – allocation to 1 month time bucket (for money market participants),
    - demand deposits, savings deposits, used current account overdraft loans, revolving loans – allocation to 6 to 12 months time bucket;
- positions not considered as interest sensitive:
    - standard off-balance sheet items: guarantees, letters of credit, bills of exchange, lines of credit, financing obligations and other standard off-balance sheet items,
    - placements classified into risk category C,
    - portfolio provisions (for placements classified into risk category A),
    - due banking book positions.

Measurement of interest rate risk exposure in the banking book is conducted with frequency according to CNB Decision; quarterly reporting in non-consolidated reports and half-yearly reporting in consolidated reports.

Change of economic value per currency	Interest rate risk in the banking book	
	Standard interest rate shock (+/- 200 basis points)	
	Decrease of economic value of credit institution	Increase of economic value of credit institution
	HRK '000	HRK '000
EUR	-72,010	-
CHF	-	32,048
HRK	-	59,722
OST	-	34,972
Other currencies (total)	-72,010	-
TOTAL		54,733

Table 24 Interest rate risk in the bank book consolidated

The ratio between the change of economic value in the banking book and the Bank's regulatory capital is 1.49%.

As prescribed by the CNB, the credit institution is obliged to maintain the ratio between the change of the economic value in the banking book and regulatory capital within the limit of ±20%.

12.2 FX RISK EXPOSURE

Exposures to FX risk are calculated in accordance with chapter III of the EU's Regulation 575/2013. Such principle prescribes that the Bank calculates an own funds requirement for foreign exchange risk if the sum of the Bank's overall net foreign-exchange position and its net gold position, including for any foreign exchange and gold positions for which own funds requirements are calculated using an internal model, exceeds 2% of its total own funds. The own funds requirement for foreign exchange risk shall be the sum of its overall net foreign-exchange position and its net gold position in the reporting currency, multiplied by 8%.

Information on FX risk exposure is presented in the following table:

Standardized approach to FX risk exposure calculation	Positions under capital requirements		Capital requirements (HRK '000)	Total amount of risk exposure (HRK '000)
	LONG (HRK '000)	SHORT (HRK '000)		
Total position in currencies	13,415,344	13,486,476	6,208	77,601

Table 25 FX risk consolidated

12.3 EXPOSURE IN EQUITIES FOR POSITION NOT INCULEDED IN THE TRADING BOOK

Exposures in equities for positions not included in the trading book with regards to their objectives are divided into:

- exposure in equities included in banking book for the purpose of daily business processes and strategic reasons such as investment in SWIFT, HROK, Tržište novca and SKDD,
- exposure in equities available for sale.

Accounting methods used to evaluate value of equities for positions not included in the trading book are investment cost method and fair value method.

Type of equity investment in banking book	Comparison		
	BS amount	Fair value	Market price amount
Equity investments in financial institutions	119,188	119,188	
Not quoted on stock exchange, sufficiently diversified portfolio	-	-	
Quoted on the stock exchange	-	-	
Other equity investment	122,127	122,127	
Equitey investment in companies	**3,020**	**3,020**	
Not quoted on stock exchange, sufficiently diversified portfolio	3,020	3,020	
quoted on the stock exchange	0	0	
other equity investment	0	0	

Table 26 Exposure in equities for positions not included in the trading book (HRK '000)

Realized and unrealized gains/losses from exposure in equities for positions not included in the trading book are as follows.

Type of equity investment for positions not included in the trading book	Total unrealized gains/losses from exposures in equities for positions not included in the trading book	Cumulative realized gains/losses arising from sales and liquidations of exposures in equities in the reporting period	Total unrealized losses and the amounts of losses included in the original or additional own funds
Equity investments in financial institutions			
not quoted on stock exchange, sufficiently diversified portfolio	0	0	0
quoted on the stock exchange	0	0	0
other equity investment	0	0	0
Equity investments in companies	0	0	0
not quoted on stock exchange, sufficiently diversified portfolio	0	0	0
quoted on the stock exchange	0	0	0
other equity investment	0	0	0
TOTAL	**0**	**0**	**0**

Table 27 Realized and unrealized gains/losses from equities for positions not included in the trading book (HRK '000)

13 OPERATIONAL RISK EXPOSURE

Operational risk is quantified through regulatory capital requirement for operational risk under the standardized approach in accordance with the provisions of Regulation (EU) No 575/2013. Operational risk management and capital calculation are aligned with the risk profile and the regulatory requirements. Internal regulations of the Bank define the methodology and rules for the calculation of capital requirements and mapping of the activities into the business lines.

Bank is calculating the capital requirement for operational risk, by using standardized approach according to which its activity is allocating to the business lines. Capital requirement for operational risk is calculated as the sum of the three-year average of annual capital requirements for all business lines. Annual capital requirement for each business line is calculated by multiplying the prescribed beta factor (specific percentages for each business line range from 12% to 18%) and part of the relevant indicator allocated to the respective business line. The activities are divided into business lines in a manner that ensures inclusiveness and mutual exclusiveness. Total exposure to operational risk is calculated in a way that the resulting capital requirement is multiplied by 12,5.

14 REMUNERATION POLICY

Information on the remuneration

Addiko Bank d.d. is a member of Addiko Bank Group whose headquarter is in Austria.

As the Addiko Bank Group of companies is headquartered in Austria, all companies within the group are regulated by the Austrian regime.

Subsidiaries in other EU states, like the Addiko Bank d.d., are subject to rules of both the Austrian and the subsidiary's state.

In accordance with Credit Institution Act, article 101, section 1, item 4, i article 101, section 2, item 5,, Addiko Bank d.d. implements Remuneration Policy that came into force in 2013 and since then it is regularly updated according to legislation.

Remuneration policy regulates salary system and other material rights of the employees, as well as other payments related to work and employment in Addiko Bank d.d. and daughter companies (Addiko Invest d.d. i Hypo-Alpe-Adria-Leasing u likvidaciji d.o.o.).

Aims to ensure a framework for the overall transparent remuneration of employees that will attract and retain good employees and motivate them to a higher level of performance, with adequate remuneration, in line with the principles of adequate risk management and within the framework of applicable laws and other regulations, as well as to inform all employees of the Company about the applicable regulations and the remuneration system.

In creation of Group and Addiko Bank d.d. Remuneration Policy were actively involved Group HR, local HR and other Control functions (risk, compliance). Internal Audit is responsible for periodically independent audit of Remuneration Policy.

On yearly level, the Group Policy is being submitted to the Group Executive Board to revise it and approve it. On local level, Supervisory Board of Addiko Bank d.d. is responsible for approval and implementation of Remuneration Policy, as well as monitoring of its implementation, together with Management Board Addiko Bank d.d.

The Supervisory Board of the Addiko Bank d.d. shall act as the Remuneration Committee on consolidated level for all daughter companies. The Remuneration Committee adopts and regularly reviews the Remuneration Policy, and has advisory role when creating and implementing Remuneration Policy, with support of Human Resources, and Internal Audit, and other control functions.

Before it came into force, Remuneration Policy was counselled with Workers Council.

Addiko Bank d.d. shall oversee the implementation of remuneration policies, practices and procedures in all its organizational units, therefore, ensure that their remuneration systems are well designed and implemented, in particular, that there is a proper balance of variable to fixed remuneration, proper measurement of performance as well as the structure and, where appropriate, the risk adjustment of the variable remuneration. Addiko Bank d.d. in compliance with regulatory requirements, undertakes to ensure proper disclosure of information with regard to remuneration policies and practices within the group.

Identified Staff

The Policy applies to all employees from the Identified staff category that includes any employee whose professional activities have a material impact on the risk profile of the Company.

In accordance with Commission Delegated Regulation (EU) No 604/2014, employees have a material impact on an institution's risk profile if qualitative or quantitative criteria defined in Regulation are met.

In 2016 4,80% of employees were defined as Identified staff.

Fixed remuneration

Fixed remuneration for the purpose of regulatory remuneration provisions is the cash wage or salary paid to individual employees for performing their work for a contracted period of time and for the scope of responsibilities, reflecting the experience and skills required.

Fixed remuneration should primarily reflect relevant professional experience and organizational responsibility as set out in an employee's job description as part of the terms of employment.

In Addiko Bank d.d. is salary ranges system is established within which basic salary for each employee is defined based on job position that an employee works on.

Variable remuneration

Variable remuneration is remuneration that is paid out in the form of additional payments or other benefits, and they depend on individual performance of employee, the Company and the Group, and achievement of other criteria.

Possible variable remuneration components are Annual bonus, Welcome bonus, Variable component of severance pay and other variable remuneration (e,g, Cash incentive plans Non-cash incentive plans).

Variable remuneration models, which have adopted Addiko Bank d.d.,, and described in Remuneration Policy, do not encourage risk taking and take into consideration long-time sustainability of the institution.

Annual bonus

The annual bonus is determined by three factors: Target Group (function of the employee), Country Success Bonus Factor (Group /Country performance) and Individual Performance.

1.Target bonus

The Target Bonus amount depends on the function of the entitled person.

1. Target Bonus amounts are defined as follows:

Target Groups	Target Bonus
Board Member of the Bank	target bonus amount and the imum bonus amount depend on the tion of the entitled MB and on the vant comparative market benchmarks e respective working environment,
Board Member of daughter company of the Bank and Manager at B1 level*	20% of annual gross base salary
Manager at B2 level*	15% of annual gross base salary
Control Function Holder**	15% of annual gross base salary
Any Other Employee*	10% of annual gross base salary

* for Commercial roles eligible for annual bonus in CMO streams Target Bonus % is multiplied with 1,5
**Control Function Holders are heads of control function units (Risk Management, Compliance and Internal Audit),

2. **Country Success Factor -** Group and Company success and is expressed through Country Success Factor and it represents Addiko Bank AG financial results and overall transformation efforts, as well as relative contribution by the respective country,
3. **Individual Performance** - Evaluation of the individual results of employees, shall be identified within the performance management process. The prerequisite for this part of the assessment is the existence of documents on meeting the goals, with the agreed financial and non-financial, and quantitative and qualitative objectives for workers and for the organizational unit.

Bonus is calculated and paid out on a yearly basis.

Variable remuneration cap

The individual amount of variable remuneration should not exceed the maximum defined in the employee's contract and shall never exceed the amount of the employee's annual fixed remuneration.

For the Control Functions, a more conservative approach applies and the variable remuneration cap is set at one third of total annual compensation, so that the individual maximum amount of variable remuneration never exceeds 50% of the employee's annual fixed compensation.

Basic conditions of payout of Annual Bonus

Variable remuneration components may only be paid out if the financial position of the Addiko Bank AG / local Addiko Bank is sustainable and the bonus is justified. An entitlement to a new bonus as well as payout of deferred installments from previous years only exists if the basic conditions - conditions on capital requirements are fulfilled.

Bonus Payout Model for Identified Staff

For the employee category identified staff a value threshold for deferring Bonus has been defined. Having considered the risk profile and the nature of the credit business of the Addiko Bank, variable remuneration /Bonus shall be deferred only if:

- the variable remuneration amount on an annual level is higher than 100,000 kn and exceeds 25% of the individual's annual fixed remuneration or

- the variable remuneration amount on an annual level is equal or higher than € 30,000

In case that Annual bonus has to be deferred, the Company will apply a model of payment of variable remuneration in a way that 50% of remuneration is paid out in cash and 50% is paid out in eligible financial instruments, and with deferral of 5 years for Board Members and of 3 years for other Identified staff.

An employee shall retain a part of variable remuneration paid out in the form of eligible financial instruments for a period of 1 years, i.e. such employee must not sell such financial instruments in this period of time. The retention period starts with the transfer of rights under eligible financial instruments. In case of eligible financial instruments that are subject to remuneration deferral, the retention period starts with the transfer of rights under such instruments for each deferred part of the remuneration.

Ex-post risk adjustments

Ex-post risk adjustments of bonus will be used as a response to the actual risk outcomes of the employee`s actions or the changed circumstances. Such ex-post risk adjustment is an explicit risk alignment mechanism through which each institution itself adjusts variable remuneration of the employee by means of Malus arrangement or Claw back clauses.

Reporting to HNB

In accordance with Credit Institution Act Addiko Bank d.d. informed in writing CNB that in year 2016 there were no employees with gross remuneration of 1Mio, EUR.

Remuneration report for 2016 for ABC [according to VERA]*
(incl. HAALC + AINVEST)

Information on remuneration for all staff

Business area	Management body in its supervisory function (SB)	Management body in its management function (EB)	Investment banking	Retail banking	Asset management	Corporate functions	Independent control functions	All other	Total
Number of members (Headcount)	1	7							8
Total number of staff (FTE) as of Dec 31			182	512	18	376	33	124	1243
Total net profit / loss									
Total remuneration	111.948 kn	20.435.364 kn	32.192.415 kn	62.325.996 kn	4.375.670 kn	75.859.906 kn	7.948.162 kn	28.407.194 kn	231.656.655 kn
of which: total variable remuneration	0 kn	7.262.586 kn	1.471.737 kn	3.400.734 kn	115.061 kn	3.639.820 kn	234.006 kn	599.604 kn	16.723.548 kn

Information on the remuneration of identified staff

Business area	Management body in supervisory function (SB)	Management body in management function (EB)	Investment banking	Retail banking	Asset management	Corporate functions	Independent control functions	All Other	Total
Number of members of SB and EBM (Headcount)	1	7							8
Number of identified staff (FTE)			11	8	4	24	3	2	52
of which: number of identified staff in senior management positions			9	3	2	12	2	2	30
Total fixed remuneration (incl. Benefits)	111.948 kn	13.172.778 kn	6.126.682 kn	4.500.016 kn	888.601 kn	12.114.451 kn	2.320.607 kn	1.776.143 kn	41.011.225 kn
of which: fixed in cash	111.948 kn	13.172.778 kn	6.126.682 kn	4.500.016 kn	888.601 kn	12.114.451 kn	2.320.607 kn	1.776.143 kn	41.011.225 kn
of which: fixed in shares and share-linked instruments	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn
of which: fixed in other types of instruments	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn
Total variable remuneration	0 kn	5.043.684 kn	571.146 kn	466.194 kn	59.167 kn	1.656.292 kn	131.390 kn	43.417 kn	7.971.290 kn
of which: variable in cash	0 kn	3.940.580 kn	571.146 kn	466.194 kn	59.167 kn	1.272.571 kn	131.390 kn	43.417 kn	6.484.465 kn
of which: variable in shares and share-linked instruments	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn
of which: variables in other types of instruments	0 kn	1.103.104 kn	0 kn	0 kn	0 kn	383.721 kn	0 kn	0 kn	1.486.825 kn
Total amount of variable remuneration which has been deferred	0 kn	2.218.902 kn	0 kn	0 kn	0 kn	546.540 kn	0 kn	0 kn	2.765.441 kn
of which: deferred variable in cash	0 kn	1.109.451 kn	0 kn	0 kn	0 kn	273.270 kn	0 kn	0 kn	1.382.721 kn
of which: deferred variable in shares and share-linked instruments	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn
of which: deferred variable in other types of instruments	0 kn	1.109.451 kn	0 kn	0 kn	0 kn	273.270 kn	0 kn	0 kn	1.382.721 kn

Additional information (identified staff)

Business area	Management body in supervisory function (SB)	Management body in management function (EB)	Investment banking	Retail banking	Asset management	Corporate functions	Independent control functions	All Other	Total
Total amount of outstanding deferred variable remuneration awarded in previous years	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn
Total amount of explicit "ex post" performance adjustment for remuneration awarded in previous years	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn
Number of beneficiaries of guaranteed variable remuneration (new sign-on payments)	0	3	0	1	0	1	0	0	5
Total amount of guaranteed variable remuneration (new sign-on payments)	0 kn	3.964.938 kn	0 kn	96.000 kn	0 kn	418.934 kn	0 kn	0 kn	4.479.872 kn
Number of beneficiaries of severance payments (termination of employment contract)	0	5	4	3	0	2	1	1	16
Total amount of severance payments (termination of employment contracts)	0 kn	3.039.040 kn	592.923 kn	409.500 kn	0 kn	384.974 kn	271.461 kn	209.854 kn	4.907.752 kn
Highest severance payment to a single person	0 kn	1.499.819 kn	278.595 kn	271.500 kn	0 kn	224.200 kn	271.461 kn	209.854 kn	1.499.819 kn
Number of beneficiaries of contributions to discretionary pension benefits	0	0	0	0	0	0	0	0	0
Total amount of contributions to discretionary pension benefits	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn
Total amount of variable remuneration awarded for multi-year periods under programmes which are not revolved annually	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn	0 kn

The business areas of "All other" are the following:

Operations, Collection, Credit Processing, Card processing center (CPC), Board Assistance..

High earners

There were no employees with gross remuneration (total of fixed and variable remuneration) of 1 Mio. EUR or more in the reported year.

*Format of this report is based on ÖNB (Österreichische Nationalbank [Austrian National Bank]) according to VERA (Vermögens-, Erfolgs- und Risiko-Ausweis [statement for assets, income and risk]).

Table 28 Quantitative information on the remunation

15 LEVERAGE RATIO

The Bank disclose relevant information regarding leverage ratio and the application of Article 499 (2), Regulation (EU) No 575/2013 in accordance with acts:

- Commission Implementing Regulation (EU) 2016/200 of 15 February 2016 laying down implementing technical standards with regard to disclosure of the leverage ratio for institutions, according to Regulation (EU) No 575/2013 of the European Parliament and of the Council
- Commission's adoption on 10 October 2014 of a Delegated Act amending the definition of the LR in the Capital Requirements Regulation.

The Bank discloses the following information:

a) Leverage ratio – disclosure template: : „LRSum“, „LRCom“, „LRSpl“ i LRQua“,
b) Breakdown of the leverage ratio total exposure measure
c) Reconciliation of leverage ratio to published financial statements
d) Disclosure of the amount of derecognised fiduciary items
e) Disclosure of qualitative information on risk of excessive leverage and factors impacting the leverage ratio

CRR Leverage Ratio — Disclosure Template		
	Reference date	31 December 2016,
	Entity name	Addiko Bank d,d,
	Level of application	Consolidated
Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures		
		Applicable Amount
1	Total assets as per published financial statements	20,988,737
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	-
4	Adjustments for derivative financial instruments	2,627
5	Adjustment for securities financing transactions (SFTs)	-9,767
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	723,806
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	0
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	0
7	Other adjustments	88,212
8	**Leverage ratio total exposure measure**	**21,793,615**

Table LRCom: Leverage ratio common disclosure		
CRR leverage ratio exposures		
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	21,059,075
2	(Asset amounts deducted in determining Tier 1 capital)	-102,932
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fidu ciary assets) (sum of lines 1 and 2)	20,956,142
		CRR leverage ratio exposures
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligi ble cash variation margin)	2,934
5	Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	6,826
EU-5a	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the bal ance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in deri vatives transactions)	0
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	Total derivatives exposures (sum of lines 4 to 10)	9,760
SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales ac counting transactions	0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	103,907
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	0
15	Agent transaction exposures	0
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	0
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	103,907

Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	1,908,055
18	(Adjustments for conversion to credit equivalent amounts)	-1,184,249
19	Other off-balance sheet exposures (sum of lines 17 and 18)	723,806
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)		
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
Capital and total exposure mesure		
		2,399,192
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	21,793,615
Leverage ratio		
22	**Leverage ratio**	**0,1101**
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	0

Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)		
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	21,062,009
EU-2	Trading book exposures	111,293
EU-3	Banking book exposures, of which:	20,950,715
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	6,440,113
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	210,190
CRR leverage ratio exposures		
EU-7	Institutions	2,097,548
EU-8	Secured by mortgages of immovable properties	954,227
EU-9	Retail exposures	4,548,300
EU-10	Corporate	4,475,877
EU-11	Exposures in default	584,147
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	1,640,314

Table LRQua **Qualitative information**		
1,	Description of the processes used to manage the risk of excessive leverage	For the purposes of assessment of the excessive leverage risk, the Bank continuously monitors the leverage ratio and its changes through detailed breakdown of the leverage ratio total exposure measure, to determinate the main components of balance exposures and their impact on the leverage ratio and impact on the changes of the main balance exposures through reporting period and their material importance and also their influence on the Bank's business plan and goals achievement. The Bank has established process and system of regular measurement, monitoring and reporting on assets and liabilities maturity mismathes, and also had clearly defined internally acceptable limits of the maturity mismatches in order to meet all regulatory requirements based on the security and stability principles, and achievement of planned profitability in order to avoid risk of distressed selling of assets which would result with losses and would endanger Bank's business plans and goals.
2,	Description of the factors that had an impact on the leverage Ratio during the period to which the disclosed leverage Ratio refers	Compared to the previous year, the financial leverage ratio has increased from 0,0779 to 0,1101. This is a result oft he Bank's capital increase and total exposure decrease of which is the largest decrease of the balance sheet exposure.

16 CREDIT RISK MITIGATION TECHNIQUES

Recognition of collaterals is prescribed by internal acts, Collaterals that are recognized by the Bank are as follows:

- cash deposits,
- securities,
- guarantees,
- real estate.

Recognition of collateral to mitigate credit risk is estimated after determining the fulfillment of legal preconditions and regulatory requirements. Collateral evaluation and categorization and their use in terms of risk mitigation is conducted upon recognition assessment. The amount and type of collateral that the Bank seeks for single credit business depends on credit risk assessment of the client and assessment of credit risk present in the related credit business.

Guarantee/surety providers are clients with sufficient credit quality according to Bank's assessment. The main guarantee provider is Republic of Croatia.

Concerning the collateral evaluation the following should be mentioned:

- cash deposits are evaluated at book value,
- securities are evaluated at market value,
- guarantees/sureties are valued at guaranteed amount,
- real estates are assessed by an independent authorized appraiser.

Concentration risk arising from the applied risk mitigation techniques is observed through detailed internal methodology of measurement and managing concentration risk.

The total exposure that is covered after the application of volatility adjustments – by eligible financial collateral and other eligible collateral.

Exposure classes	UNFUNDED CREDIT PROTECTION		FUNDED CREDIT PROTECTION	
	GUARANTEES	CREDIT DERIVATIVES	FINANCIAL COLLATERAL: SIMPLE METHOD	OTHER FUNDED CREDIT PROTECTION
	in mio HRK	in mio HRK	in mio HRK	in mio HRK
Exposures to central governments or central banks				
Exposures to local and regional self-governments				
Exposures to public sector entities				
Exposures to institutions				
Exposures to corporate entities	1,020			
Retail exposures	1			
Exposures secured by mortgages				
Exposures in default	1			
Exposures to items associated with particularly high risk				
Exposure in the form of investment fund investing				
Other exposures	1			
UKUPNO	**1,022**	**0**	**0**	**0**

Table 29 Exposures considering credit risk mitigation techniques - standardized approach