AGRI EUROPE

AGRI EUROPE CYPRUS GROUP

DISCLOSURE OF ADDITIONAL INFORMATION FOR 2019

Kranj, 30 April 2020

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Introduction

According to Article 13 of the Regulation No. 575/2013 of the European Parliament (hereinafter referred to as the Capital Requirements Regulation/ CRR), the Disclosure Report of Agri Europe Cyprus Limited Group is published (hereinafter refered to as the Group).

Banking group consists of the following Group members:

- AGRI EUROPE CYPRUS LIMITED, Cyprus (AEC) as a parent company and
- NORD AGRI N.V., Netherland as subsidiary
- M&V INVESTMENTS a.d. Beograd, Serbia as subsidiary
- AIK BANKA a.d. Beograd, Serbia as credit institution subsidiary
- GORENJSKA BANKA d.d. Kranj, Slovenia as credit institution subsidiary
- GB Leasing d.o.o. Ljubljana, Slovenia, as a subsidiary.

The Disclosure Report of Group (Report) meets the disclosure requirements of Part Eight of the CRR and is in accordance with Art 431 to 455 CRR. Report is also in accordance with requirements set in relevant technical standards, the guidelines on disclosure requirements under Part Eight of CRR.

The main document is published annually. Pursuant to Article 434 (1) CRR, the Group publishes the Report annualy on the website https://www.gbkr.si/ and on https://www.agrieurope.com.cy/.

Disclosure Report does not contain disclosures not relevant for the Group. The Group does not operate with credit derivatives, does not use on-balance-sheet netting, the IRB approach for calculating the capital requirements for credit risk, internal models for calculating capital requirements for market risk, does not calculate capital requirements for operational risk according to advanced approach and does not performe securitisation transactions.

The Group is not a systemically important global institution, so the disclosures of the indicators of the general systemic importance are not relevant (Article 441 of the CRR regulation).

The disclosures of the Group is confirmed by Group Supervisory Board of AEC.

1. Risk Management Goals and Policies

(Article 435.1 a,b,c,d,e and f of the CRR Regulation)

General information on risk management strategies and policies

The Group defines its risk strategy and risk appetite through the annual strategic planning process, encompassing business strategy and strategic guidelines, to ensure appropriate alignment of risk, capital, liquidity and performance targets.

Strategic goals and objectives are based on Group aspiration to be recognized as a distinctive financial institution on all the markets on which it operates.

The main milestones of our business strategy and management approach shall be the following:

- client-focused orientation – clients represent core of business operations,
- specialization in serving selected markets with tailored solutions,
- sustainable business which contributing to society, economic stability and the environment,
- managing and positioning the Group for the long term with the creation of recognizable brand,
- balanced operational and financial risk with full cost and risk awareness,
- strong company culture supported with dedicated and talented employees.

The Group defines risk management strategy which sets out the Group's objectives in managing risks on a long-term basis and determines the Group's relation to the risks it is exposed to or may be exposed, including the risks arising from the macroeconomic environment in which the Group and each group member is operating.

Long-term goal is to build a diversified portfolio of businesses and geographies to support clients through various markets and economic cycles. The Group has been expanded through a combination of organic growth and strategic acquisitions.

The Group seeks new investment opportunities with special focus on Europe countries. Each decision on business expansion shall be made on the basis of thorough examination on the macroeconomic and regulatory environment, but also on the basis of analysis of the viability of the business in question, its cost effectiveness,

quality of its management system and finally, it should always be aligned with the Group estimation on the future prospects of economy in question and business itself.

The main strategic goal of the Group in the upcoming period is to achieve long-term viable profitability and increase of asset base, while improving already stable market position on the markets on which it operates. The Group is expected to realize this through the organic growth of the portfolio and/or through the process of acquisition/investment in acquiring a portfolio or acquiring a share in the equity of an entity in the financial sector. This type of investment is expected to enable diversification of business, create new opportunities, ensure presence on selected markets and, ultimately, increase the value for shareholders.

With Risk Management Strategy, as part of a comprehensive risk management system, the Group:

- defines all risks that the Group is exposed to or may be exposed to in its business;
- defines long-term risk management objectives set forth in the Group's Business Strategy;
- determines the basic principles of risk management;
- determines the obligation of regular reporting on risk management.

The basic principles of risk taking are:

- establishing clear rules for managing individual types of risk, with accompanying procedures for managing each individual type of risk with clearly defined objectives;
- making business decisions based on qualitative and/or quantitative analysis of risk parameters, in order to timely detect changes in the risk profile;
- collecting complete, timely and accurate data important for risk management and providing adequate technical and information resources for data storage and processing;
- the principle of caution in assuming risk, with continuous monitoring and control of exposure to certain types of risks and respect for the established system of limits;
- using a number of methods for identifying and measuring risk - in risk management, besides the regulatory framework and risk management approaches, as well as internal methods.

The basic principles of management of risks that the Group is or may be exposed to in its operations are set on the Group level. Group Risk Management Policy provides guidelines for the risk management process that the subsidiaries apply in accordance with the nature, scope and complexity of their business activities.

Group members define in more details the principles of risk management according to its specifics but following to Group Risk Management Policy. Each Group member has locally defined risk management policies and procedures that prescribe the responsibilities, method of individual risk management process, the method and methodology for identifying, measuring, evaluating, mitigating and monitoring these risks and the principles of the internal control system.

In order to satisfy the principle of risk taking, each subsidiary should follow principles of risk management:

- continuous work on identifying, measuring, assessing and controlling risks,
- maintaining such an internal organization or organizational structure through which the front office functions are separated from the activities of the middle office, back office and risk control activities with a clearly defined division of jobs and duties employees preventing conflict of interest,
- familiarizing employees with their jobs and tasks and continuously involving employees at all levels in the risk management process, which means that employees at all levels have basic knowledge and understand the risks from the domain of personal responsibility and act in accordance with the internal regulations,
- adequate communication, information flow and cooperation at all organizational levels, as defined in the Group Risk Management Strategy;
- the comprehensiveness of the risk management system - risk management should include all business activities and all the risks that the each subsidiary is exposed to in its operations. Establishing a comprehensive framework for risk management as well as a comprehensive and effective internal control system requires a prerequisite for the long-term success;
- developing a risk management system as a strategic commitment - risk management will be continually improved and aligned with the Group's business activities, changes in external and internal regulations;
- mandatory monitoring of changes in the amount of capital and active capital management with emphasis on the fulfilment of the obligation that capital must be sufficient to amortize all risks;
- risk management is part of the business culture - awareness of the importance of risk management is present at all levels of the organizational structure of the Group.

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The Group regularly, at least once a year, assesses the risks to which it is exposed to. The risk is the possibility of adverse effects on the capital, liquidity and financial result of the Group as a result of transactions that the Group performs and the macroeconomic environment in which it operates.

The Group establishes a comprehensive and reliable risk management system that is fully integrated into business activities of each Group member and ensures that the Group's risk profile is in line with the Group's risk appetite. In the long run, the Group must maintain risk exposure within the prescribed limits, i.e. in accordance with the defined risk tolerance.

The Group also conducts the internal capital adequacy assessment process (ICAAP) on a continuous basis, in accordance with Group Risk Management Strategy and Group ICAAP and ILAAP Framework, while respecting the regulatory framework. The ICAAP is a formalized and documented process that meets the following criteria:

- it is based on the process of identification and measurement, i.e. risk assessment;
- provides a comprehensive risk assessment and measurement, as well as monitoring of significant risks that the Group is exposed to or may be exposed to in its business;
- provides adequate internal capital in accordance with the risk profile of the Group;
- it is adequately involved in the Group's risk management process and decision-making process;
- is subject to regular analysis, monitoring and verification by the Group's governing bodies.

Based on the Group Business Strategy, list of risks identified as the risks to which the Group is or might be exposed to in its operations is as follows:

1) **Credit risk** comprises several risk types, listed below:
   a) **Credit default risk** – possibility of occurrence of adverse effects on the financial result and capital of the Group due to debtor’s failure to fulfil its obligations towards the Group;
   b) **Residual risk** – which presents the risk that the applied credit risk mitigation techniques are less effective than expected, or that their application does not have a sufficient effect on the mitigation of the risks to which the Group is exposed;
   c) **Settlement/delivery risk** – possibility of adverse effects on the financial result and equity of the Group based on transactions related to debt or equity securities (except for repurchase and reverse repurchase agreements and contracts for issuance and withdrawal of securities) where there is a mismatch between the moment of payment and delivery, as well as on the basis of outstanding transactions as a result of non-performance of the obligation of the other contractual party for transactions of free delivery on a pre-contracted date;
   d) **Counterparty risk** – possibility of adverse effects on the financial result and the Group's capital due to default of the other party's obligation in the transaction before the final settlement of the cash flows of the transaction, i.e. the settlement of monetary liabilities under that transaction.
   e) **FX lending risk** - is the risk arising from the impact of the change in the domestic currency's exchange rate on financial position and creditworthiness of the borrower due to the currency mismatch between the borrower`s receivables and his obligations towards a group member.
   f) **Credit risk induced by interest rate risk** - Credit risk induced by interest rate risk is the risk of loss due to changes in the reference interest rates to which the repayment of the loan is related, which may adversely affect the client's creditworthiness or client´s ability to settle liabilities in a timely manner.
   g) **Dilution risk -** is the possibility of occurrence of adverse effect on the banks financial result and capital due to reduced value of purchased receivables as a result of cash or non-cash liabilities of the former creditor to the borrower,
   h) **Credit Valuation Adjustment risk (CVA risk)** means a risk of loss arising from a change in the amount of the CVA due to the change in the credit margin of the other counterparty, on account of a change in the counterparty’s credit quality.

2) **Concentration risk** – the risk that directly or indirectly arises from the Group's exposure to the same or similar source of risk, or the same or similar type of risk. The concentration risk refers to:
   a) Large exposures / Individual concentration risk
   b) Groups of exposures with the same or similar risk factors, such as: economic sectors, branches, geographical areas, product types, etc. MVI/AIK and GB-industry concentration
   c) Credit protection instruments, including maturity and currency mismatch between large exposures and credit protection instruments for these exposures.

3) **Market risks** – the possibility of adverse effects on the financial result and the Group's capital based on changes in the value of balance sheet items and off-balance sheet items due to the price volatility on the market. Market risks include following risk types:

a) Foreign exchange risk is the risk of adverse effects on the financial result and the Group's capital due to the change in the foreign exchange rate. The Group is exposed to the it in the whole balance sheet;
b) The position risk is the risk of adverse effects on the financial result and the Group's capital due to the change in the value of the portfolio of financial instruments (debt and equity securities) in the Trading book. Position risk includes general and specific price risk:
   - General position risk is the risk of price fluctuation as a consequence of the general situation and changes in a particular market;
   - The specific position risk is the risk of a change in the price of securities as a result of a change in the factors related to its issuer.
c) The commodity risk is the possibility of adverse effects on the financial result and the equity of the Group on the basis of losses in the commodity risk positions in the whole balance sheet due to the movement of the prices of commodities on the market.

4) **Interest rate risk in the banking book (IRRBB)** – is the risk of possible negative effects on the financial result and the Group's capital based on positions in the Banking book due to changes in interest rates.

   Credit Spread Risk from non-trading book activities (CSRBB) - Reduction of value of securities due to increase in the levels of market interest rates and required returns; any kind of asset/liability spread risk of credit-risky instruments that is not explained by IRRBB and by the expected credit/jump to default risk.

5) **Liquidity risk** – the possibility of adverse effects on the financial result, ability to maintain the business and the Group's capital due to the Group's inability to fulfil its due obligations, due to:
   a) withdrawal of existing sources of financing, or inability to obtain new sources of financing (funding liquidity risk) or
   b) difficult to convert assets into liquid assets due to market disturbances (market liquidity risk).

6) **Operational risk** - the risk of possible negative effects on the financial result and capital of the Group due to omissions (inadvertent and intentional) in the work of employees, inadequate internal procedures and processes, inadequate management of information and other systems in the Group, and the occurrence of unpredictable external events. Operational risk includes legal risk, information and model risk.
   a) Legal risk is the risk of adverse effects on the financial result and the Group's capital based on court or off-court procedures related to the Group's operations (obligatory relations, labour relations, etc.). Legal risk is the risk of losses due to inadequate or untimely perception and consequently taking account of changes in the legal and regulatory environment and the risk of losses due to legal deficiencies or discrepancies in contractual acts and other banking documents
   b) Information technology or IT risk is basically any threat to business data, critical systems and business processes. It is the risk associated with the use, ownership, operation, involvement, influence and adoption of IT within an organization
   c) Model risk - probability of loss resulting from the weaknesses in the financial model used in assessing and managing a risk.

7) **Country risk** – risk relating to the country of origin of the entity to which the Group is exposed, or the risk of the possibility of adverse effects on the financial result and capital of the Group due to the inability of the Group to collect cash flows from that entity for reasons arising from political, economic or social situation in the country of origin of debtor. Country risk includes the following risks:
   a) Political and economic risk which implies the likelihood of a loss due to the Group's inability to collect receivables due to restrictions established by the acts of the state and other authorities of the country of origin of the debtor, as well as the general and systemic circumstances in that country;
   b) Transfer risk which implies the likelihood of a loss due to the inability to collect receivables denominated in a currency other than the official currency of the country of origin of the debtor, due to the limitation of the payment of obligations towards creditors from other countries in a specific currency as determined by the acts of state or other authorities of the debtor country.

8) **Compliance risk** –possibility of adverse effects on the financial result and the Group's capital due to failure to align its operations with law and other regulations, operating standards, procedures for the prevention of money laundering and terrorist financing and other procedures, as well as other acts regulating the operations of Groups, in particular, includes the risk of sanctions of the regulatory body, the risk of financial losses and reputation risk.

9) **The risk of money laundering and terrorist financing** – the risk that a contractual party will misuse a business relationship, a transaction for money laundering or terrorist financing activities, the risk of possible negative effects on the financial result, capital or reputation of the Group due to the use of the Group (direct or indirect use of a business relationship with the Group, transaction, service or product of the Group) for money laundering and/or terrorist financing.
10) **Reputational risk** - the possibility of adverse effects on the financial result and the Group's capital due to the failure to harmonize the Group's operations with legal acts, bylaws, internal acts of the Group, as well as with the rules of profession, good business practices and business ethics of the Group and as a consequence possible loss of public confidence, that is, the unfavourable attitude of the public towards the Group's operations, regardless of whether there is a basis for it or not.
11) **Strategic risk** -the possibility of adverse effects on the financial result and/or the Group's capital due to the lack of appropriate policies and strategies, their inadequate implementation, as well as due to changes in the environment in which the Group operates or lack of adequate Group reactions to these changes.

Details regarding risk management process in the Group, including identification, measurement and assessment, mitigation, monitoring, control and reporting of risks the Group is or might be exposed to in its operations, are described in the Group Risk Management Policy.

The Structure and Organisation of the Relevant Risk Management Functions

For the purpose of adequate risk management, at the level of each subsidiary an appropriate organizational structure has been established that corresponds to the scope, type and complexity of the tasks it performs and in order to prevent the conflict of interest, the separation of the functions of taking risks (front office) from the function of risk management (middle office) and activities of support (back office).

The organizational structure of the Group Members enables realization of established goals and principles of risk management.

The risk management process of the Group involves both Group's and each Group Member's bodies and organizational units with either direct or supporting risk management function.

Each Group Member more closely defines the roles and responsibilities of the governing bodies according to the principles defined in this Strategy and local regulation.

In the risk management process, the following participate:

- Group bodies – Group Supervisory function, Group Risk and Audit Committee
- Group Risk management, Group ALM, Group Compliance and Group Internal Audit functions
- Bodies, functions and units on the credit institution subsidiary level
- Other functions depending on the type of risk (e.g. sales, workout & collections…)

Group Risk and Audit Committee – is the governing body overseen by the Group Supervisory Function that discusses, analyses and strategically control and manage risks over the entire Group.

Group Risk Control function – performs its operational activities through:

- The Credit Risk Control function is responsible for the analysis, measurement, assessment, control and reporting of credit risk at the Group level. Additionally, it leads the internal capital adequacy assessment process in the domain of credit risk and other risks;
- The Liquidity, Market and Operational Risk control function is responsible for the analysis, measurement, assessment, and control and reporting of market risks, interest rate risk, liquidity risk and operational risks at the Group level. Additionally, it leads the internal capital adequacy assessment process in the domain of market risks, interest, operational risk and liquidity risk;

The Group Credit risk management function - is involved in the credit risk measurement and assessment as defined in the Group Underwriting Framework.

Treasury&ALM function performs its operational activities through:

- The Trade, Sales and Capital Market and the Investor Relations and Financial Institutions trade in foreign currency products, securities and cash deposits with legal entities, financial institutions and banks;
- Relations with Investors and Financial Institutions and

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- The Balance and Liquidity Management function (ALM function) manages liquidity and interest rate risk, and the Trading, Selling and Capital Market Management manages foreign exchange risk.

Compliance function is in charge of:
- Identifying, monitoring, managing the risk of compliance at the subsidiary level of ;
- Identifies and assesses at least annually the main risks of business compliance and proposes management plans for these risks, on which it draws up a report that is submitted to the Group's Supervisory Function.

Internal Audit function carries out an independent evaluation of the risk management system at the level of subsidiaries, and performs a regular assessment of the adequacy, reliability and efficiency of the internal control system in accordance with the Internal Audit Program at the subsidiary level of.

On the AEC level, the duties of the above mentioned functions will be performed by the respective functions on the level of AIK bank. Furthermore, respective functions of AIK bank will engage additional resources within the Group in order to perform its tasks in a timely and efficient manner.

On the level of credit institution subsidiaries, each subsidiary is allowed to have the organization of risk management processes defined in accordance with local specifics and regulatory requirements, while following the general principlesdefined in the Group Risk Management Policy.

For the purpose of identifying and more specifically managing and mitigating risks to which the Group is exposed, each subsidiary has organized its functions following the “3 lines of defence” rules:

First line of defence is on the level of business and operational units of subsidiaries being responsible for:
- Identification and implementation of the process control mechanisms,
- Development and implementation of independent monitoring of control mechanisms at the level of the First Defence Line to reduce the risk level,
- Identification of risk in business activity
- Implementation and independent monitoring of control mechanisms and reporting of its results in case of detection any significant / critical irregularities.

Second line of defence is on the level of Risk Management units of subsidiaries being responsible for:
- Effective risk management due to the ownership of particular risks
- Organizational separation and independence of units from the First Defence Line,
- Implementation of testing or ongoing verification in order to conduct an independent assessment of the risk profile against the accepted level of risk and the effectiveness of independent monitoring,
- Reporting the results of independent monitoring along with recommendations for remediation actions in case of irregularities detected,
- Monitoring of the implementation of remediation plans.

Finally the third line of defence is on the level of Internal audit functions of subsidiaries being responsible for:
- Independent and objective assessment of the effectiveness and adequacy of the internal control system based on performed audits.

The Scope and Nature of Risk Reporting and Measurement Systems

The reporting process includes two segments:

- Internal reporting and
- Regulatory reporting

Internal reporting

Internal risk reporting includes a set of reports that the sectors in charge of risk management and risk control are submitted to the Group risk control function which further reports to Group Risk and Audit Committee and Group Supervisory function, in accordance with the defined deadlines.

Group Risk Control function reports quarterly to the Group Risk and Audit Committee and Group Supervisory function . As a general principle, reporting is done on a quarterly basis or more often if necessary and as defined by relevant policies and frameworks.

Regulatory reporting

The reports on risk management and control are submitted on consolidated level in the forms and within the deadlines prescribed by the regulator.

Each group member is responsible for regulatory reporting based on local regulation.

The Policies for Hedging and Mitigating Risk, and the Strategies and Processes for Monitoring the Continuing Effectiveness of Hedges and Mitigants

The following documents are of key importance for the area of risk management:

- Group Risk Management Strategy;
- Group Risk Appetite Statement
- Group Risk Management Policy
- Group ICAAP and ILAAP Framework
- Group Recovery Plan
- Group underwriting Framework
- Group Liquidity Contingency plan Framework.

In addition to the umbrella documents from the field risk management on Group level, each credit institution subsidiary also has policies and procedures for managing individual risks types which define in detail the procedures and methodology for assessing risks when approving placementes, procedures for risk measurment, the system of limits, risk mitigation techniques determining the required internal capital, the procedures for internal reporting and mechanisms of internal controls for operations. At the third and lowest level, there are also instructions, methodologies for carrying out individual activities or procedures in the process of assuming and managing risks, prescribed forms, and records.

A Declaration Approved by the Management Body on the Adequacy of Risk Management Arrangements of the Bank

The Group Supervisory Board confirms that the risk management process on the Group level is adequate and that the implemented risk management system is adequate with regard to Group business strategy and model, complexity and risk profile of the Group.

Information Regarding Governance Arrangement

(Article 435.2 a,b,c,d and e of the CRR Regulation)

Group Supervisory board has adopted Group Policy on Internal Corporate Governance and it is the key document which governs internal governance on the Group level. The key purpose of the Group Policy on internal corporate governace is to define the general principles of internal corporate governance. Each subsidiary has adopted on local level its own internal governace policy which should be alligned to the maximum extent permitted under applicable local law, with the principles and rules set out in Group policy on Internal Corporate Governance.

The Group promotes the following key values:

- responsibility to clients, employees and the society at large;
- open communication and cooperation; and
- efficiency in everyday work and while meeting the commitments.

The GROUP is committed to developing a client-focused culture, risk awareness, integrity, efficient organization and social responsibility.

The long-term goal of the Group is to devote great effort to maximizing its value. With the aim of long-term successful performance, the Group takes into account the interests of employees, clients, creditors, stakeholders and the Group as a whole, while devoting attention to the environmental and social aspects of operations in order to ensure sustainable development.

The main principles that should be followed when defining Management and Supervisory functions are:

Management function

The management function engages actively in the business of an institution and makes decisions on a sound and well-informed basis.

The management function is responsible for the implementation of the strategies and discusses regularly the implementation and appropriateness of those strategies. The operational implementation performed by the institution’s management.

The management function comprehensively reports and informs regularly and where necessary without undue delay of the relevant elements for the assessment of a situation, the risks and developments affecting or that may affect the institution, e.g. material decisions on business activities and risks taken, the evaluation of the

institution's economic and business environment, liquidity and sound capital base, and assessment of its material risk exposures.

Supervisory function

The supervisory function:

- oversees and monitors management decision-making and actions and provides effective oversight of the management function, including monitoring and scrutinizing its individual and collective performance and the implementation of the institution's strategy and objectives;
- constructively challenges and critically reviews proposals and information provided by members of the management function, as well as its decisions;
- ensures and periodically assesses the effectiveness of the institution's internal governance framework and take appropriate steps to address any identified deficiencies;
- oversees and monitors the institution's strategic objectives, organizational structure and risk strategy, including its risk appetite and risk management framework, as well as other policies (e.g. remuneration policy) and the disclosure framework are implemented consistently;
- monitors that the risk culture of the institution is implemented consistently;
- oversees the implementation and maintenance of a code of conduct or similar and effective policies to identify, manages and mitigates actual and potential conflicts of interest;
- oversees the integrity of financial information and reporting, and the internal control framework, including an effective and sound risk management framework;
- ensures that the heads of internal control functions are able to act independently and, regardless the responsibility to report to other internal bodies, business lines or units, can raise concerns and warn the supervisory function directly, where necessary, when adverse risk developments affect or may affect the institution; and
- monitors the implementation of the internal audit plan, after the prior involvement of the risk and audit committees, where such committees are established.

Additionally, Audit and Risk Committee has been established on the Group level as well as on the level on individual credit institution subsidiary. The Risk and Audit Committee is responsible for the following:

- advises and supports the supervisory function regarding the monitoring of the institution's overall actual and future risk appetite and strategy, taking into account all types of risks, to ensure that they are in line with the business strategy, objectives, corporate culture and values of the institution;
- assists the supervisory function in overseeing the implementation of the institution's risk strategy and the corresponding limits set;
- oversees the implementation of the strategies for capital and liquidity management as well as for all other relevant risks of an institution, such as market, credit, operational (including legal and IT risks) and reputational risks, in order to assess their adequacy against the approved risk appetite and strategy;
- provides the supervisory function with recommendations on necessary adjustments to the risk strategy resulting from, inter alia, changes in the business model of the institution, market developments or recommendations made by the risk management function;
- provides advice on the appointment of external consultants that the supervisory function may decide to engage for advice or support;
- oversees the alignment between all material financial products and services offered to clients and the business model and risk strategy of the institution15. The risk committee should assess the risks associated with the offered financial products and services and take into account the alignment between the prices assigned to and the profits gained from those products and services;
- assesses the recommendations of internal or external auditors and follow up on the appropriate implementation of measures taken.
- monitors the effectiveness of the institution's internal quality control and risk management systems and, where applicable, its internal audit function, with regard to the financial reporting of the audited institution,
- oversees the establishment of accounting policies by the institution;
- monitors the statutory audit of the annual and consolidated financial statements,

- reviews the audit scope and frequency of the statutory audit of annual or consolidated accounts.

Recruitment policy for the selection of members of the management body

All subsidiaries are required to define in local corporate governance policies the professional standards (knowledge, experience) and ethical standards (reputation, collective suitability, conflict of interests), as well as other professional standards (the obligation of diligent, loyal and independent behaviour) of the management body's members, which are considered when choosing members of the management body. Also, diversity in the composition of the management body (from the viewpoint of gender balance and other characteristics) should be taken into account when selcting the members of the management body.

Members of the management body must have professional (theoretical) knowledge, skills and (practical) experience, including personal integrity, to independently exercise their judgement in taking decisions in the best interest of the subsidary. Members must be competent to exercise a comprehensive and objective judgement on the relevant matters at all times.

Members of the management body must hold at least a university degree and possess professional theoretical knowledge, skills and practical experience in banking and financial services or other relevant areas (e.g. economics, law, administration and financial regulations, mathematics, statistics) and at least 5 years of recent experience in the areas related to banking or financial services.

Members of the Supervisory Board must have enough experience for the purpose of ensuring constructive and critical reviews of the Management Board's decision and an efficient supervision over the Management Board, of effectively exercising their role in accepting policies and decisions, the responsibility of which falls on the Supervisory Board, especially regarding the supervision of implementing strategic goals of the Group/subsidiaries, of determining, accepting and regularly inspecting the strategy of assuming and managing risks, as well as effectively participating in committees of the Supervisory Board.

Policy on diversity with regard to the selection of members of the management body, the objectives and targets set out in that policy, and the extent to which they have been achieved

Each subsidiary is pursuing the principle of a balanced gender representation in a sense that the management body (Management function, Supervisory function) has at least 20% of each gender. The structure of the management body reflects the diversity of professional theoretical knowledge and experience in various areas, with which the following is ensured:

- the expected (necessary) membership qualification structure, based on the size, complexity and risk profile of the subsidary, and
- the basis (background) for promoting diversity of viewpoints (opinions), based on the discussed matters (issues).

Supervisory function has independent members who have no conflicts of interest and who act independently and objectively when making decisions, and who have no tighter economic ties with the Group.

The Information Flow on Risk to the Management Body

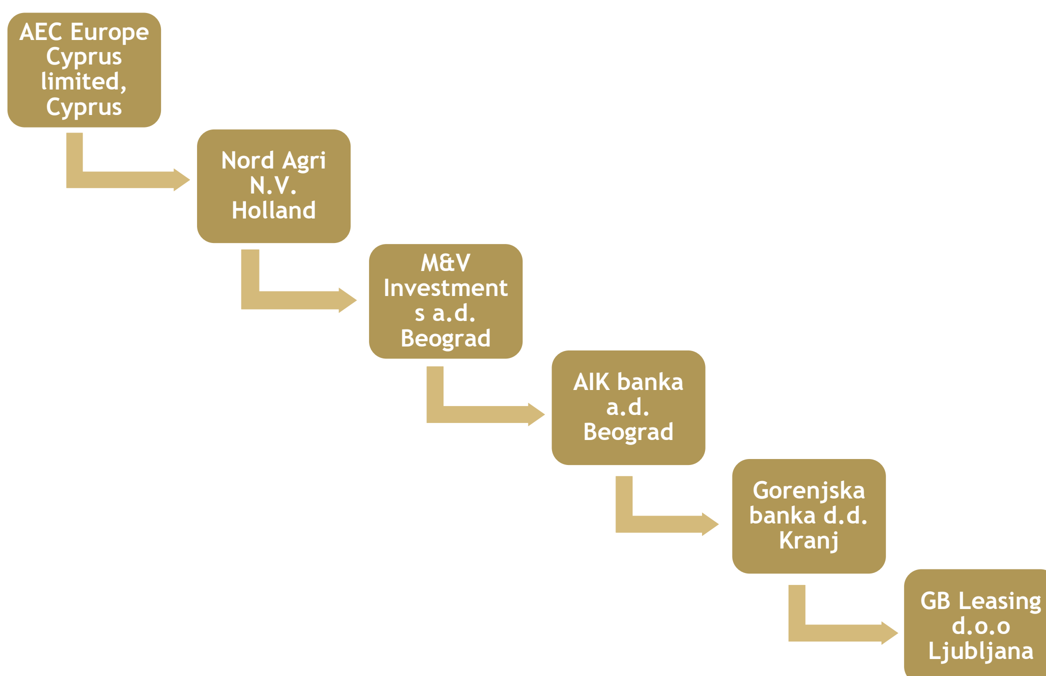
Group Risk and Audit Committee meets regularly, at least on quarterly basis. In 2019 it was held three times. Afterwards, the Risk and Audit Committee Report is presented to Group Supervisory function.

2. Scope of Application

(Article 436 of the CRR Regulation)

The AEC Group is obliged to publish disclosures on consolidated level, as required by the Regulation 575/2013. Group members are listed in the Introduction part of this Disclosure.

The Group's ownership structure is shown in the figure below:



There are no material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the Parent company and its subsidiaries. Also, in the foreseen future we do not see any material praitical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the Parent and its subsidiaries.

Differences in the basis of consolidation for accounting and prudential purposes are presented in the tables below:

Entity name	Scope in for accounting purposes	Scope in for prudential purposes
Agri Europe Cyprus Ltd, Cyprus	YES	YES
NordAgri NV, Netherlands	YES	YES
M&V Investments a.d., Beograd	YES	YES
AIK Banka a.d., Beograd	YES	YES
Gorenjska Banka d.d., Kranj	YES	YES
GB Leasing d.o.o., Ljubljana	YES	YES
Imobilia - GBK d.o.o., Kranj	YES	NO
Hypo Alpe Adria Leasing d.o.o., Ljubljana	YES	NO

in EUR

Line item	Accounting purposes	Prudential purposes	Difference
Total assets	3,745,074,951	3,744,319,407	755,544
Total liabilities	3,040,395,080	3,040,476,409	(81,329)
Total Equity	704,679,871	703,842,998	836,873
- o/w CY profit	197,356,997	196,520,123	836,873

3. Own Funds

(Article 437 a , b,c,d and e of the CRR Regulation)

A Full Reconciliation of Own Funds Items and Filters and Deductions to Own Funds and the Balance Sheet

Group`s capital is comprised of elements of the total capital, additionally reduced by deductibles.

The table below shows the scope in which individual items in the statement of financial position are included into the calculation of the capital in order to determine the capital adequacy.

(in thousands of EUR)		*12/31/2019*
	Statement of financial position	**Included in capital**
Cash, cash balances at central banks and other demand deposits	650,125	0
Financial assets held for trading	35,182	-35
Non-trading financial assets mandatorily at fair value through profit or loss	20,211	-20
Financial assets designated at fair value through profit or loss	88,960	-89
Financial assets at fair value through other comprehensive income	203,548	-204
Financial assets at amortised cost	2,524,648	0
Investments in subsidiaries, joint ventures and associates	2,606	0
Tangible assets	186,241	0
- Property, plant and equipment	49,252	0
- Investment property	136,990	0
Intangible assets	7,727	-7,727
Deferred tax assets	5,469	0
- related to future profits and not arise from temporary differences	3,869	-3,869
- related to future profits and arise from temporary differences	1,600	0
Other assets	18,471	0
Non-current assets and disposal groups classified as held for sale	1,132	0
TOTAL ASSETS	**3,744,319**	**0**
Financial liabilities held for trading	53	0
Financial liabilities measured at amortised cost	3,011,631	0
Provisions	9,728	0
Tax liabilities	8,449	0
- Current tax liabilities	6,513	0
- Deferred tax liabilities	1,936	0
Other liabilities	10,615	0
TOTAL LIABILITIES	3,040,476	0
Paid up capital	1	1
Share premium	0	0
Accumulated other comprehensive income	17,358	17,358
Reserve from profit	251,855	251,560
- reserve from profit of previous years	249,696	0
- reserve of using the profit from current year	2,159	0
Treasury shares	0	0
Retained earnings (including income from the current year)	529,854	0
- retained earnings from previous years	333,569	318,227
- net profit for the financial year after using for reserves	196,284	0
(-) Interim dividends	-99,500	0
Minority interests [Non-controlling interests]	4,275	0
TOTAL EQUITY	**703,843**	**0**
TOTAL EQUITY AND TOTAL LIABILITIES	**3,744,319**	**0**
Sum of items from Statement of financial position and pledged own shares		575,202
EQUITY		**575,202**

Description of the Main Features of the Instruments of Individual Categories of Capital Issued by the Bank

To provide the disclosure of the main features of the common equity tier 1 instruments, the Grop used the template for the main features of capital instruments which is in accordance with Article 3 of the implementing regulation.

Capital instruments' main features template			
1	Issuer	Agri Europe Cyprus Limited	Agri Europe Cyprus Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A	N/A
3	Governing law(s) of the instrument	Cyprus	Cyprus
Regulatory treatment			
4	Transitional CRR rules	N/A	N/A
5	Post-transitional CRR rules	N/A	N/A
6	Eligible at solo/ (sub-)consolidated/ solo & (sub-)consolidated	Consolidated	Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares	Share premium
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	0.001 mEUR	73,004.149 mEUR
9	Nominal amount of instrument	EUR 1.00	N/A
9a	Issue price	Seen Note (1)	N/A
9b	Redemption price	N/A	N/A
10	Accounting classification	Shareholder's equity	Shareholder's equity
11	Original date of issuance	Seen Note (1)	Seen Note (1)
12	Perpeptual or dated	Perpetual	Perpetual
13	Original maturity date	N/A	N/A
14	Issuer call subject to prior supervisory approval	N/A	N/A
15	Optional call date, contingent call dates, and redemption amount	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A
Coupons / dividends			
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	N/A	N/A
19	Existence of a dividend stopper	N/A	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	N/A	N/A
22	Noncumulative or cumulative	N/A	N/A
23	Convertible or non-convertible	N/A	N/A
24	If convertible, conversion trigger (s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specifiy instrument type convertible into	N/A	N/A
29	If convertible, specifiy issuer of instrument it converts into	N/A	N/A
30	Write-down features	N/A	N/A
31	If write-down, write-down trigger (s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierachy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to all liabilities of the Company	Subordinated to all liabilities of the Company
36	Non-compliant transitioned features	N/A	N/A
37	If yes, specifiy non-compliant features	N/A	N/A

Note (1)

Issue Date:	No of share issued	Par Value, EUR	Premium Amount par value, EUR	Issue Price, EUR	Premium Amount, EUR
16.03.2011	1000	1		1.00	
26.07.2013	100	1	47.62	48.62	4,762
13.09.2013	72	1	694,436.50	694,437.50	49,999,428
07.11.2017	41	1	560,974.61	560,975.61	22,999,959
Total	1,213				73,004,149

The Group does not have capital instruments of additional Tier 1 capital and Tier 2 capital.

Terms and Conditions of all Instruments from Individual Categories of Capital

Among instruments of common equity capital, the Group includes common shares that meet the terms and conditions from Article 28 of the CRR regulation. Among the important terms and conditions of instruments of common equity capital are constancy, flexibility regarding payments and availability for covering loss.

Separate Disclosure of the Nature and Amounts of Prudential Filters and Deductions from Capital and Description of all Restrictions Applied to the Calculation of Own Funds in Accordance with the Regulation and the Instruments, Prudential Filters and Deductions to which those Restrictions Apply

In line with regulatory requirements, the Group must meet the Common Equity Tier 1 capital ratio of 4.5%, Tier 1 capital ratio of 6% and the total capital ratio of 8%. At the end of 2019, Common Equity Tier 1 capital exceeded the requirements for 444,176 thousand Euros, the Tier 1 capital for 400,501 thousand Euros, the total capital for 342,268 thousand Euros.

(in thousands EUR)

Sequential number of the element and element title		A	B
Common equity tier 1 capital: instruments and reserves			
1	Capital instruments and the related paid capital surplus	1	26(1), 27, 28, 29, 26 (3), EBA list
	of which: in accordance with Article 28 of Regulation (EU) no. 575/2013	1	26(3), EBA list
2	Retained earnings	318,227	26(1)(c)
3	Accumulated other comprehensive income (and other reserves to include unrealised profits and losses in accordance with applicable accounting standards)	268,917	26(1)
6	Common equity tier 1 capital before regulatory adjustments	587,146	
Common equity tier 1 capital: regulatory adjustments			
7	Additional value adjustments	-348	34, 105
8	Intangible assets (reduced for related tax liabilities)	-7,727	36(1)(b), 37, 472(4)
10	Deferred tax assets that refer to future profitability, except those that arise from temporary differences - reduced for tax liability, if the conditions from Article 38(3) are met	-3,869	36(1)(c), 38, 472(5)
16	Direct and indirect shares of the institution in own instruments of common equity tier 1 capital		36(1)(f), 42, 472(8)
26	Regulative adjustments for common equity tier 1 capital in relation to amounts for which treatment before the capital requirements regulation is applied		0
Sequential number of the element and element title			
28	Total regulatory adjustments of common equity tier 1 capital	-11,944	0
29	Common equity tier 1 capital	575,202	0

4. Capital Requirements
(Article 438 a,c,e and f of the CRR Regulation)

A Summary of the Approach to Assessing the Adequacy of Internal Capital to Support Current and Future Activities

The Group has established an internal capital adequacy assessment process (hereinafter: ICAAP) in accordance with its Risk Management Strategy i.e. in accordance with its risk profile. The Group conducts ICAAP on continuous basis, while respecting the regulatory framework.

Within Pillar 1, the Group calculates its capital requirements for the credit, market, operational risk and credit value adjustment risk (CVA risk). Group uses the standardised approach for credit and CVA risk and basic indicator approach for calculation of capital requirements for operational risk, as defined within CRR. Within Pillar 1, the Group calculates the minimum capital requirements for FX risk and position risk in trading book positions in equities.

Additional risk types are defined within Pillar 2, and for them the Group calculates internal capital requirements.

Group`s Internal capital equals own funds calculated in accordance with CRR. Available internal capital means the amount of capital available to cover all risks that the Group is or might be exposed to in its operations. The Group is obliged to determine the available internal capital and distribute it among identified risk types. Total internal capital requirements indicate the amount of capital needed to cover all risks the Group is or might be expose to in its operations, while the internal capital requirement for an individual risk indicates the amount of capital required to cover the individual risk to which the Group is or might be exposed to.

The Group implements internal capital adequacy assessment process in accordance with:

- Group Risk Management Strategy and Group Risk Management Policy;
- Group ICAAP and ILAAP Framework
- Additionally, all Group members define in their internal procedures for conducting the internal capital adequacy assessment process, all in accordance with the framework defined at the Group level.

By planning available internal capital, the Group also ensures the maintenance of the level of capital that can support further growth of placements, employ future sources of funds and ensure continuity in the implementation of business policy. Planning of regulatory and internal capital is carried out for a period of three years.

ICAAP is a formalized and documented processes that meets the following criteria:

- is based on the process of identification and measurement i.e. risk assessment;
- provides a comprehensive risk assessment and measurement, as well as monitoring of significant risks that the Group is exposed to or may be exposed to in its business;
- provides adequate level of available internal capital in accordance with risk profile of the Group;
- it is adequately involved in the Group's management system and decision-making in the Group;
- is subject to regular analysis, monitoring and verification by the Group's governing bodies.

ICAAP process is performed on consolidated level and includes the following stages:

- determination of materially significant risks;
- calculation of the amount of internal capital requirements for individual risks;
- calculation of total internal capital requirements;
- calculation of total internal capital requirements in stressed conditions;
- a comparison of:
    - capital calculated in accordance with the regulatory requirement and available internal capital;
    - minimum capital requirements and internal capital requirements,
    - sum of minimum capital requirements and total internal capital requirements.

The Group defines in the Group ICAAP and ILAAP Framework quantitative and qualitative criteria based on which material risks are determined, that are included in the internal capital adequacy assessment process. This takes into account the type, scope and complexity of the Group`s operations, as well as the specificities of the markets in which the Group and its members operate.

The Group uses following approaches and models for calculation of internal capital requirements for each of the materially significant risks identified:

- Credit default risk incl.Counterparty risk - Standardized approach;
- Concentration risk - Internal model based on the Herfindahl-Hirschman Index (HHI);
- FX lending risk - Internal model;
- Residual risk – Internal model;
- Credit risk induced by interest rate risk – Internal model;
- Country risk – Internal model;
- Market risks - Standardized approach;
- Operational risk - Basic indicator approach;
- Liquidity risk - Assessment of the liquidity buffers amount and adequacy through severe stress scenarios;
- Interest rate risk in the banking book and Credit Spread risk - EVE Interest rate shock scenarios and internal model, respectively;
- CVA risk – Standardized approach;
- Other risks - The Bank allocates 5% of regulatory capital requirements for other risks.

The Bank conducts stress testing for all material risks and calculates capital requirements in stress conditions.

Total internal capital requirements are calculated as a simple sum of internal capital requirements for each of the risk type for which capital requirements is calculated, plus the effects of stress tests performed for certain risks. This approach is considered conservative because it does not take into account the effects of diversification between different types of risks.

The result of the internal capital adequacy assessment process as of 31.12.2019 show total internal capital equirements that are 27% surpass the regulatory capital requirements.

Capital Requirements for Credit Risk, Market Risk and Settlement Risk and Operational Risk

The Group considered Credit default risk as the material significant risk. In order to assess the internal capital requirement for credit risk, the Group uses Standardized approach as defined in Capital Requirements Regulations (CRR).

The Group's credit risk weighted assets are the sum of the exposure of balance sheet assets and off-balance sheet items multiplied by the appropriate credit risk weights, as defined in Article 113 of the CRR regulation. Credit risk weight for each individual position of the balance sheet assets and for each off-balance sheet itemis determined on the basis of the class of exposure and the level of its credit quality. Additionally, credit risk for off-balance exposures is calculated by applying regulatory prescribed credit conversion factors (CCFs) to the different types of off-balance transaction. The capital requirement for credit risk is calculated by multiplying risk-weighted assets by 8%.

To calculate the capital requirement for market risks, it uses methods prescribed by the regulation (more on that in section 10th of these Disclosures). Capital requirement for operational risks are calculated by applying basic indicator approach (more on that in section 11th of these Disclosures).

The table with capital requirements for credit risk, including Counterparty risk, (by individual exposure categories), market risk,operational risk and CVA risk is presented in the table below:

AGRI EUROPE

Item	*in tsd EUR*
TOTAL RISK EXPOSURE AMOUNT	**2,911,672**
RISK WEIGHTED EXPOSURE FOR CREDIT AND COUNTERPARTY CREDIT RISKS	**2,526,130**
Central governments or central banks	264,667
Regional governments or local authorities	7,977
Public sector entities	7,743
Multilateral Development Banks	0
International Organisations	0
Institutions	32,219
Corporates	1,178,220
Retail	385,943
Secured by mortgages on immovable property	193,952
Exposures in default	84,476
Items associated with particular high risk	111,488
Covered bonds	0
Claims on institutions and corporates with a short-term credit assessment	0
Collective investments undertakings (CIU)	12,891
Equity	42,302
Other items	204,252
TOTAL RISK EXPOSURE AMOUNT FOR SETTLEMENT/DELIVERY	**0**
TOTAL RISK EXPOSURE AMOUNT FOR POSITION AND FOREIGN EXCHANGE RISKS	**89,648**
Equity	71,100
Foreign Exchange	18,548
TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (OpR)	**295,606**
OpR Basic indicator Approach (BIA)	295,606
TOTAL RISK EXPOSURE AMOUNT FOR CREDIT VALUATION ADJUSTMENT (CVA)	**288**
Standardised method	288

Overview of capital adequacy ratio as of 31.12.2019 is presented in the table below:

Item	in tsd EUR	Capital Adequacy ratio
TOTAL RISK EXPOSURE AMOUNT	2,911,672	
COMMON EQUITY TIER 1 CAPITAL	575,202	19.76%
TIER 1 CAPITAL	575,202	19.76%
OWN FUNDS	575,202	19.76%

5. Exposure to Counterparty Credit Risk
(Article 439 of the CRR Regulation)

Counterparty credit risk is the risk of default of the counterparty in the transaction before the final settlement of the cash flows of the transaction i.e. before the settlement of cash obligations for that transaction.

The Group calculates risk weighted assets for counterparty credit risk based on the following trading book and banking book positions:

- financial derivatives;
- credit derivatives;
- repo and reverse repo transactions;
- lending or borrowing transactions of securities or commodities;
- securities lending transaction;

- transaction with a long settlement period.

The Group is exposed to this type of risk on the basis of reverse repo transactions as well as financial derivatives.

For the purpose of calculating the counterparty credit risk exposure, the Group uses the current exposure method (for financial derivatives) and the complex method for calculating the adjusted value of the transaction and collateral in the case of repo and reverse repo transactions.

In accordance with the current exposure method, the exposure amount is calculated as the sum of:

- Current exposures based on a contract whose value is positive, which represents the market value of that contract (for contracts whose value is negative, current exposure is zero) and
- Potential exposures in the period remaining until the contractual obligation matures, which is obtained when the hypothetical principal value of each contract at the date of calculation is multiplied by the appropriate conversion factors prescribed by the regulator.

According to the complex method, the amount of exposure to which credit risk weights is applied is expressed as the effective value of the exposure. The effective value of exposure is equal to the amount of the difference between the adjusted values of the exposure and the collateral; if that amount is negative, then it equals 0.

Exposure value for Counterparty credit risk as of 31.12.2019 amounts EUR 31,710,585 and capital requirements amounts 2,397,128 EUR.

6. Capital Buffers

(Article 440 of the CRR Regulation)

By introducing Basel III regulation, European legislation on capital introduced a system of capital buffers which are an additional requirement for determining the required amount of capital. Besides requirements that arise from the 1st and 2nd Basel pillar risks, the highest quality capital of banks (CET1) must also fulfil the capital buffer requirements. Failure to comply with the requirements regarding capital buffers results in restrictions in distributing the operating result with the purpose of strengthening the bank's capital base.

The level of the Group's own countercyclical capital buffer is a weighted average of the applicable levels of countercyclical buffers for countries where the Group has relevant credit exposures. The level of the Group's own countercyclical buffer at the end of 2019 was 0.02%.

The table below presents the calculation of the amount of the Group's own countercyclical capital buffer, as at 31 December 2019.

In thsd EUR

1.	Amount of total risk exposure, in thousands EUR	2,911,672
2.	Level of the bank's own countercyclical buffer, in %	0.02
3.	Requirement for the Group's own countercyclical buffer, in thousands EUR (1.*2.)	582

The table below contains the geographical distribution of the Group's credit exposure relevant for calculating the countercyclical capital buffer, as at 31 December 2019.

Country	General credit exposures, in thousands EUR	Capital requirements, in thousands EUR	Weights of capital requirements, in %	Level of countercyclical capital buffer, in %
United Arab Emirates	8,013	128	0.06	0.00
Austria	21,148	571	0.28	0.00
Australia	9	1	0.00	0.00
Bosnia and Herzegovina	3,503	96	0.05	0.00
Belgium	811	65	0.03	0.00
Bulgaria	1,836	147	0.07	0.50
Brazil	360	16	0.01	0.00
Canada	20	1	0.00	0.00
Switzerland	5,015	81	0.04	0.00
China	113	9	0.00	0.00
Cyprus	36,283	2,896	1.40	0.00
Germany	3,685	199	0.10	0.00
Egypt	992	27	0.01	0.00
Spain	2	0	0.00	0.00
France	25,383	444	0.22	0.25
United Kingdom	22,926	3,462	1.68	1.00
Greece	346	37	0.02	0.00
Croatia	96,568	3,666	1.78	0.00
Hungary	1,607	129	0.06	0.00
Ireland	100	8	0.00	1.00
Italy	17,787	752	0.36	0.00
Luxembourg	666	3	0.00	0.00
Montenegro	30,307	2,322	1.13	0.00
Macedonia	25	2	0.00	0.00
Netherlands	24,610	2,750	1.33	0.00
Poland	3,103	247	0.12	0.00
Portugal	120	5	0.00	0.00
Romania	2,474	198	0.10	0.00
Serbia	1,707,757	110,089	53.39	0.00
Russian Federation	1,825	140	0.07	0.00
Sweden	413	33	0.02	2.50
Slovenia	1,517,955	74,778	36.26	0.00
Slovakia	6,216	484	0.23	1.50
Turkey	170	14	0.01	0.00
Ukraine	3	0	0.00	0.00
United States	5,861	499	0.24	0.00
Virgin Islands, British	23,787	1,903	0.92	0.00
Total	**3,571,799**	**206,202**	**100.00**	

7. Credit Risk Adjustments

(Article 442 a,b,c,d,e,f,g,h and i of the CRR Regulation)

Definitions for Accounting Purposes of "Past Due" and "Impaired"

Group treats as past due items all items and exposures where the counterparty has not settled its contractual obligations in due time and in the contractually agreed scope and in accordance with the agreed conditions.

The Group defines default in accordance with the CRR regulation. Default is defined as a delay of at least 90 days, in materially significant amount, at the level of exposure.

The default status may be identified even before the 90 day delay if other quantitative or qualitative criteria are identified that indicate the existence of objective evidence of impairment of a financial asset:

- Significant deterioration in financial status of the client
- Significantly changed the terms of the repayment of placements due to the financial difficulties of the borrower (FNPE or NPE)
- Initiating bankruptcy proceedings or initiating another type of financial reorganization

AGRI EUROPE

- Other available qualitative information

Materially significant amount is defined in accordance with relevant ECB regulations for EU based credit institution subsidiaries. Credit institution subsidiaries outside EU are allowed to use different materiality definitions as long as they are more restrictive than as per relevant ECB regulations.

Impaired items for accounting purposes are all items that are classified as Stage 3 according to IFR 9.

Description of the Approaches and Methods Adopted for Determining Credit Risk Adjustments

In accordance withIFRS 9, Group quarterly:
- assesses the quality of receivables, determines whether there is objective evidence of impairment,
- assesses whether there has been a significant increase in credit risk in relation to the date of initial recognition and
- calculates the amount of impairment on the basis of expected losses.

Group Imapirment Framework in accordance with IFRS 9 (IFRS 9 Framework) is adopted by Group Supervisory Function on the Group level and all credit institution subsidiaries shall align with this Framework as well as any regulatory requirements on local levels. Group recognizes impairment in accordance with IFRS 9 Framework for all financial instruments that are measured at amortized cost.

In accordance with the above, the Group calculates impairment in the amount equal to the expected credit losses over the life of the asset, if the credit risk for that financial instrument has significantly increased from initial recognition or there is objective evidence of impairment (financial assets in stage 2 and 3), or up to the amount of a which is equal to the expected twelve-month credit losses for all financial instruments for which credit risk did not significantly increase from initial recognition (financial assets in stage 1).

Impairment calculation - Stage 1: For the purpose of calculating the impairment, the expected twelve-month credit losses.

Calculation of impairment –Stage 2: The expected loss represents the probability of a weighted of credit losses over the expected life of financial instrument.

The LGD parameter represents an estimate of the loss at default, or the default status. LGD is one of the key components for calculating expected losses. In its assessment of credit losses, Group wants to reflect the possibility of collecting cash flows from regular cash flows, as well as from collaterals. In that sense, the Group calculates LGD for secured part of the portfolio (“LGDsecured”) and LGD for unsecured portfolio ("LGDunsecured") for calculation of expected loss for Stage 1 and 2.

Calculation of impairment for exposures in stage 3 is done for all exposures with the identified default status.

Assessment of impairment could be done on individual and group basis depending on the individual significance of the exposure.

In accordance with the IFRS9, the expected credit losses represent the probability weighted assessment of expected credit loss and the Group recognizes several possible collection scenarios when assessing expected future cash flows. The individual assessment is performed for individually significant clients.

The scenarios that are taken into account are:
- realization of collateral,
- restructuring,
- bankruptcy,
- sale of receivables,
- collection from cash and
- Other that is considered relevant.

When defining the scenario, Group takes into account the collection strategy defined for particular client.

When determining probability for certain scenarios, Group is guided by the history of realization and collection of default loans, as well as the specifics exposures as well as all other available information that may be relevant in assessing the probability of realizing a particular collection strategy.

The probability of all scenarios in the sum must be 100%.

Group assessment :For all other exposures, impairment is calculated on the group level, which implies the grouping of the remaining financial instruments in Stage 3 by the sub-segments depending on the portfolio structure.

The impairment value is calculated by using the residual LGD (PD is 100%). Residual LGD is calculated based on the number of months in default and recovery that has been discounted with EIR.

LGD residual is applied to unsecured part of the exposure. When calculating the secured part of the exposure, only part of the exposure covered with hard collateral is taken into account.

The Total Amount of Exposures after Accounting Offsets and Without Taking into Account the Effects of Credit Risk Mitigation, and the Average Amount of the Exposures over the Period Broken Down by All Exposure Classes

The table below contains the value of exposures less the impairments or provisions, without taking into account the effects of credit protections and the average amount of the exposures in a year broken down by exposure classes. The average amount of exposures is calculated as the arithmetic average of quarterly data.

(in thousands of EUR)	Net value of exposure (31 Dec. 2019)	Net value of exposure (average 2019)
Central governments or central banks	506,705	499,172
Regional governments or local authorities	11,465	12,202
Public sector entities	15,708	14,781
Institutions	129,096	181,267
Corporates	1,656,363	1,546,698
Secured by mortgages on immovable property	434,548	394,365
Retail	672,100	660,160
Exposures in default	71,550	76,962
Items associated with particularly high risk	95,919	82,290
Claims in the form of CIU	95,711	87,526
Equity Exposures	38,394	87,666
Other items	679,382	648,437
Total exposure	**4,406,939**	**4,291,524**

The Geographic Distribution of the Exposures, Broken Down in Significant Areas by Material Exposure Classes

The table below contains the value of exposures less the impairments or provisions, without taking into account the effects of credit protections by geographical areas, broken down by exposure classes.

As at 31 December 2019 (in thousands of EUR)	Slovenia	Serbia	Other EU countries	Other countries	Total
Central governments or central banks	150,296	260,899	90,483	5,027	506,705
Regional governments or local authorities	4,058	7,407	0	0	11,465
Public sector entities	15,708	0	0	0	15,708
Institutions	13,911	10,552	68,458	36,174	129,096
Corporates	473,868	1,004,750	125,676	52,068	1,656,363
Secured by mortgages on immovable property	212,797	218,172	679	2,900	434,548
Retail	487,792	177,728	5,487	1,093	672,100
Exposures in default	38,870	28,598	1,871	2,212	71,550
Items associated with particularly high risk	72,019	0	23,900	0	95,919
Claims in the form of CIU	6,767	31,517	57,353	73	95,711
Equity Exposures	20,262	4,887	193	13,051	38,394
Other items	415,804	261,415	2,045	117	679,382
Total exposure	**1,912,153**	**2,005,926**	**376,146**	**112,714**	**4,406,939**

The Distribution of the Exposures by Counterparty Type, Broken Down by Exposure Classes

The table below contains the value of exposures less the impairments or provisions, without taking into account the effects of credit protections by client type, broken down by exposure classes.

AGRI EUROPE

As at 31 December 2019 (in thousands of EUR)	Government	Corporates	SME	Individuals	Banks	Other	Total
Central governments or central banks	506,705	-	-	-	-	-	506,705
Regional governments or local authorities	11,465	-	-	-	-	-	11,465
Public sector entities	15,506	-	202	-	-	-	15,708
Institutions	-	-	-	-	129,096	-	129,096
Corporates	-	910,251	746,113	-	-	-	1,656,363
Secured by mortgages on immovable property	-	187,937	157,569	85,691	-	3,349	434,548
Retail	-	-	223,817	448,284	-	-	672,100
Exposures in default	651	19,913	42,400	8,353	231	1	71,550
Items associated with particularly high risk	-	1,749	94,170	-	-	-	95,919
Claims in the form of CIU	6,840	88,871	-	-	-	-	95,711
Equity Exposures	-	15,549	4,740	-	18,096	9	38,394
Other items	104,572	308,275	11,514	5,681	91,186	158,152	679,382
Total exposure	**645,739**	**1,532,545**	**1,280,526**	**548,010**	**238,609**	**161,511**	**4,406,939**

The Residual Maturity Breakdown of all the Exposures, Broken Down by Exposure Classes

The table below contains the value of balance sheet exposures less the impairments or provisions, without taking into account the effects of credit protections by residual maturity, broken down by exposure classes.

As at 31 December 201 9 (in thousands of EUR)	Up to one month	Over one month to one year	Over one year to five years	More than five year	Total
Central governments or central banks	113,980	59,353	189,670	116,909	479,912
Regional governments or local authorities	742	409	4,731	4,129	10,011
Public sector entities	89	14,207	1,214	19	15,529
Institutions	107,300	2,519	3,513	8,998	122,330
Corporates	132,788	325,698	584,031	76,631	1,119,147
Secured by mortgages on immovable property	6,295	57,745	252,004	96,880	412,924
Retail	31,623	128,389	265,031	123,246	548,288
Exposures in default	15,357	4,814	31,308	18,550	70,029
Items associated with particularly high risk	6,615	13,372	37,132	1,364	58,483
Claims in the form of CIU	88,871	0	0	6,840	95,711
Equity Exposures	7,530	422	0	30,441	38,394
Other items	491,466	9,320	12,273	176,407	689,466
Total exposure	**1,002,655**	**616,247**	**1,380,908**	**660,414**	**3,660,224**

The Amount of Past Due Exposures and the Amount of Impaired Exposures, the Amount of Credit Risk Adjustments, the Amount of Charges for Credit Risk Adjustments during the Reporting Period - by Counterparty Types

The table below summarises the data regarding past due exposures, including delayed amounts and the amount of impairments by individual types of the counterparty.

As at 31 December 2019

(in thousands of EUR)	Gross value of loans and receivables	Gross value of past due loans	Delayed amount	Impairment of past due receivables
Corporate				
Loans to corporates	1,144,075	28,395	16,013	(8,230)
Loans to SME	428,414	21,454	7,289	(6,437)
Loans to government	17,972	5	0	0
Retail				
Overdrafts	19,296	410	192	(40)
Housing loans	170,103	2,006	1,857	(337)
Consumer and other loans	150,639	2,642	1,520	(514)
Leasing	247,903	18,896	1,065	(797)
Other financial assets	2,672	265	125	(50)
Total	**2,181,074**	**74,073**	**28,062**	**(16,406)**

The Amount of Past Due Exposures and the Amount of the Impaired Exposures, Broken Down by Significant Geographical Areas, including the Amounts of Credit Risk Adjustments Related to Each Geographical Area

Past due exposures in the amount of 28,062 thousand EUR for which 16,406 thousand EUR is impaired mainly refer to the area of Serbia and Slovenia.

As at 31 December 2019 (in thousands of EUR)	Gross value of loans	Gross value of past due loans	Delayed amount	Impairment of past due receivables
Slovenia	997,463	46,948	10,846	(10,943)
Serbia	1,084,865	23,348	16,686	(5,405)
The rest of EU	77,991	3,629	518	(55)
Other countries	20,755	148	13	(2)
Total	**2,181,074**	**74,073**	**28,062**	**(16,406)**

8. Unencumbered Assets
(Article 443 of the CRR Regulation)

In 2019, the Group had its assets encumbered due to the security of received sources of cash operations of the central bank, due to ensuring liquid assets of the bank resolution fund, security with cash assets paid in clearing systems, central counterparties and other institutions for infrastructures as a prerequisite to access services (guarantee scheme SEPA) and from security for claims of foreign commercial banks, based on the bank-provided counter guarantees and credits. The Group did not burden its assets in 2019 from other sources of financing, from transactions with the performed financial instruments, from loaning of securities, from repo contracts, and from issuing covered bonds and securitisation, with the exception of the above.

The tables below show the median values for 2019, in accordance with the Regulation AE.

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Template A: Encumbered and unencumbered assets

(in thousands of EUR)	Book value of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
Bank's assets	161,570		3,581,005	
Equity instruments	-	-	67,748	
Debt securities	102,460	100,155	464,719	471,478
Issued by general government	102,460	100,155	311,465	324,475
Issued by financial corporations	-	-	65,727	58,024
Issued by non-financial corporations	-	-	87,527	88,979
Other assets	59,110		3,048,538	
Loans on demand	55,901		570,665	
Other loans	3,209		2,156,515	
Other assets	-		321,358	

Template B: Collateral received

The Group does not have any encumbered collateral received or own debt securities issued.

Template C: Sources of encumbrance

(in thousands of EUR)	Related obligations	Assets and received collateral that is encumbered
Deposits	96,602	96,602
Other sources of encumbrance	3,209	61,875

Template D: Descriptions

The information in templates A and C are calculated by using median values of quarterly data, which were reported in the period of the last twelve months.

Among the unencumbered assets from template A, 9.0% are items which are not available for encumbrance in regular operations. These are resources in the cash register, intangible assets, deferred claims for taxes, tangible fixed assets, investment real estate, equity investments of affiliated companies, non-current assets available for sale and other non-finance assets (in template A, such items were included among other assets).

In case of secured receivables of foreign commercial banks on the basis of the counter-guarantees and letters of credit assured by the bank, the bank is ensuring insurance to foreign commercial banks in the value of at least 100% of the value of a receivable, provided the receivable is in domestic currency or, respectively, of at least 125% of the value of a receivable in case the receivable is in foreign currency. Maturity of insurance must be longer than maturity of receivables of foreign commercial banks.

9. Use of ECAIs

(Article 444 a,b,c and e of the CRR Regulation)

The Names of the Nominated External Credit Assessment Institution (ECAIs) and the Reasons for Any Changes

In accordance with provisions of the CRR regulation, the Group nominated the Moody's credit risk assessment institution to determine the risk weights for calculating the capital requirements for credit risk.

The Exposure Classes for which Each ECAI is Used

For determining the credit quality level for exposures to sovereigns and central banks and for exposures to banks the Group uses raitings from seleced ECAI. External ratings are used to calculate the RWA in the Standardised Approach, if external rating exist.

In order to map primary credit assessments with the levels of credit quality, the table of mapping in Annex III of the Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016 laying down implementing technical standards with regard to the mapping of credit assessments of external credit assessment institutions for credit risk in accordance with Articles 136(1) and 136(3) of CRR is used.

A Description of the Process Used to Transfer the Issuer and Issue Credit Assessments onto Items not Included in the Trading Book

When determining risk weights, based on available credit assessments of the debtor and their financial instruments, the Group acts in accordance with the CRR regulation. Risk weights indicated in the CRR regulation are used for all available credit assessments.

The Exposure Values and the Exposure Values after Credit Risk Mitigation Associated with Each Credit Quality Step, as Well as those Deducted from Own Funds

The Group maps the ratings made by external credit assessment institutions to credit quality steps from 1 to 6. It only takes into account the credit assessments of nominated external credit assessment institutions for claims in the class of exposure to central governments.

The exposure values before credit risk mitigation and application of conversion factors are disclosed in section 7.3 of these disclosures.

The table below contains the exposure values (total amount of on-balance sheet and off-balance sheet exposures under the regulatory scope of consolidation; in accordance with Article 111 in the CRR) after (i) the application of conversion factors and (ii) the application of credit risk mitigation tehniques associated with each credit quality step, broken down by exposure classes

As at 31 December 2019

(in thousands of EUR)	0%	20%	35%	50%	75%	100%	150%	250%	Other	Total
Central governments or central banks	305,926	11,461	-	-	-	260,899	-	594	-	578,880
Regional governments or local authorities	-	2,904	-	-	-	7,396	-	-	-	10,300
Public sector entities	63	-	-	15,487	-	-	-	-	-	15,550
Institutions	-	108,080	-	714	-	5,429	3,211	-	-	117,434
Corporates	-	-	-	-	-	1,187,560	-	-	-	1,187,560
Secured by mortgages on immovable property	-	-	-	-	559,128	-	-	-	-	559,128
Retail	-	-	98,293	330,389	-	82	-	-	-	428,764
Exposures in default	-	-	-	-	-	31,395	35,387	-	-	66,782
Items associated with particularly high risk	-	-	-	-	-	-	74,325	-	-	74,325
Claims in the form of CIU	-	-	-	-	-	73	-	-	95,638	95,711
Equity Exposures	-	-	-	-	-	35,788	-	2,606	-	38,394
Other items	474,469	-	-	-	-	201,765	-	995	-	677,229
Total exposure	**780,458**	**122,445**	**98,293**	**346,590**	**559,128**	**1,730,387**	**112,923**	**4,195**	**95,638**	**3,850,057**

The Group reduced the capital for the following deduction items:

(in thousands of EUR)	**2019**
Intangible assets	7,727
Deferred tax assets	3,869
Value adjustment due to requirements for prudent valuation	348
Deduction items from capital	**11,944**

10. Market Risk Exposure

(Article 445 of the CRR Regulation)

The Group calculates capital requirements for market risks for all positions intended for trading. These are positions the bank intends to sell in the short-term and/or the purpose of which is to earn from actual or expected short-term changes of the difference between the purchase and sale price or from other changes in price or interest rate. Used values for each position from the trading book adequately reflect the current market value.

The capital requirement for market risks equals the sum of capital requirements that are calculated for the following positions:

- for position risk based on trading book positions;
- for foreign exchange risk for all positions of trading and banking book;
- for commodity risk.

Capital requirements for position risk is calculated by the Group for debt instruments and equities. It is calculated as the sum of the capital requirement for specific and general position risk. Specific position risk is the sum of weighted long and short net positions of financial instruments. Weights are for various debt instruments and equities and depend mainly on the credit assessment, maturity and issuer. General position risk is calculated by the Group by using the maturity-based approach. In 2019, the Group had only equity securities in its trading book portfolio.

Since the total net position in foreign currency exceeds 2% of the Group's capital, the Group calculates the capital requirement for currency risk.

The Group has no unsettled transactions in the trading and non-trading book and, therefore, does not calculate the capital requirement for the risk of settlement.

The Group has no goods in its portfolio and, therefore, does not calculate the capital requirement for commodities risk. The Group has no correlation trading portfolio, namely positions in securitisation and credit derivatives based on the n-th default.

11. Operational Risk

(Article 446 of the CRR Regulation)

Operational risk is the risk of loss as a result of unsuitable or unsuccessful performance of internal processes, the conduct of people, the functioning of systems, or external factors, and also includes information risks, compliance risks, legal risk, and model risk.

Legal risk is understood by the Bank as the risk of losses due to inappropriate or late detection and, consequently, consideration of changes in the legal and regulatory environment, as well as the risk of losses due to legal weaknesses or non-compliances in contract acts and other documents.

The objective of managing operational risk consists in the fact that each subsidiary: identifies events that represent operational risk sources, classifies identified events into predefined categories of losses events, monitors their frequency and importance by defined lines of business in accordance with their organization and activity, as well as to form a database on events arising from operational risk.

Identification of operational risks implies identifying events that represent sources of operational risk that each subsidiary may be exposed to. Operational risks are identified for all significant products, processes, systems, and external factors. Identification of operational risk takes place through a combination of preparing a map of operational risks, performing self-assessments and risk control, as well as by collecting data on events that are considered operational risk.

Each subsidiary measure, i.e. estimate exposure to operational risk, taking into account the possibility, that is, the frequency of the occurrence of that risk, as well as its potential impact on its outcome, with particular reference to events that are deemed unlikely to arise, but it is assumed or it is known that if they occur, they can cause major material losses.

In measuring or assessing operational risk, each subsidiary assesses in particular whether this risk is exposed or can be exposed on the basis of the introduction of new products, activities, processes and systems, and assesses whether and how the activities whose performance it intends to entrust to third parties, influence the level of operational risks.

Each subsidiary measures exposure to operational risks in quantitative and qualitative terms. The quality and comprehensiveness of the measurement must be sufficient to ensure efficient decision-making. Measurement includes risk assessment, scenario analysis and data collection on operational risk events.

Based on the results of the activities of identification and assessment of operational risk, measures to mitigate this risk are defined.

Mitigation of operational risk involves the establishment of measures and rules for the application of these measures, relating to the taking, reduction, transfer and avoidance of risks identified, measured and estimated by each subsidiary.

Operational risk mitigation is achieved by:

- consistent application of procedures for identification, measurement and risk assessment of each subsidiary;
- by proposing, by the competent organizational units of the credit institution subsidiary, measures to prevent or control, reduce and eliminate the causes of operational risk.

One of the segments of operational risk management includes the consideration of stress test results. The assumptions used for stress tests are defined on the subsidiary level based on the local specifics and must be properly documented.

The organizational unit responsible for controlling the operational risks at the level of subsidiaries follows the results of the scenario and informs the Group Liquidity, Market and Operational Risk control function.

Operational risk reporting includes a system of external and internal reporting on operational risk management. External reporting is carried out in accordance with the requirements of the regulator.

The organizational unit of each subsidiary in charge of controlling operational risk is obliged to report in a timely and adequate manner to the Group Liquidity, Market and Operational Risk control function, on information on the activities and risks arising from operational risk events.

Each subsidiary reports to the Group's Risk Control function:

- ad-hoc reports of high-loss events;
- quarterly - includes the assessment and analysis of operational risk exposure (analysis of collected data on operational risk events, proposals and deadlines for mitigating the greatest operational risks, as well as responsible persons/organizational units in charge of taking proposed measures, self-assessment results, etc.).

At the request of the Group's bodies and committees, reports may include other information relevant for operational risk monitoring.

Considering its size, organisation and scale of operations, the Group uses the basic indicator approach to calculate the capital requirement for operational risk.

Capital requirement calculated according to the basic indicator approach equals 15% of a three-year average of the sum of net interest and non-interest income. On 31st December 2019, it amounted to 23,649 thousand Euros.

12. Exposures in Equities Not Included in the Trading Book

(Article 447 of the CRR Regulation)

At the end of 2019, the Group had equity investments in the non-trading book with total amount of 23.826 thousand EUR.

The accounting value of equities (shares) that are not included in the trading book:

(in thousand of EUR)

Shares in capital	31. decembar 2019.
Securities traded at the exchange:	
Budvanska rivijera a.d., Budva	7,885
Sveti Stefan hoteli a.d., Budva	4,097
Zavarovalnica Triglav, d.d., Ljubljana	197
ZIF Eurofond-1, d.d., Tuzla (EFNFRK1)	73
Total	**12,252**
Securities not traded at the exchange:	
Hoteli Bernardin, d.d., Portorož (HBPN)	1,736
Other	316
Total	**2,052**

Business Company The Hotel Group Budva Riviera a.d., Budva, on June 26, 2019, made a reduction of the share capital due to the separation with the establishment of a new company called Sveti Stefan Hotels a.d., Budva. Following the above mentioned change, the new company Sveti Stefan Hotels a.d., Budva issued shares so that the Group received a share in this company in the same percentage as it has in the Budva Riviera a.d., Budva. As of December 31, 2019, the Group participation in both companies is 15.23%. Shares of Budva Riviera a.d., Budva and Sveti Stefan Hotels a.d., Budva are listed on Montenegro Stock Excange.

Shares of Zavarovalnica Triglav, d.d., Ljubljana and ZIF Eurofond-1 d.d., Tuzla, are listed on the organised market and are valued according to market price at the Ljubljana Stock Exchange or Sarajevo Stock Exchange on the balance sheet date.

Profit and loss from valuation according to fair value are shown in capital and are transferred into the income statement when the assets are sold or impaired. Then, the cumulative profits or losses that were previously shown in capital are acknowledged in the income statement. In the event of an impairment, the negative effects are transferred from the capital into the income statement.

For investments into Hoteli Bernardi d.d., Portorož, the Group uses an internal model and the accounting value equals fair value of the investments.

The Group classifies the investments in the capital of companies that enable the Group member (Gorenjska bank) to provide services (Bankart, d.o.o., Ljubljana, SWIFT Belgium and the Bank Resolution Fund) as strategic investments and values them at fair value through other comprehensive income. Among equity investments is also the investment into the Bank Resolution Fund at the Bank of Slovenia, which is valued under the fair value, on the basis of the value from the information received from the operator, in accordance with the Bank Resolution Authority and Fund Act (ZOSRB, Official Gazette of RS No 97/14).

The accounting value of equities (including the bank’s share in the bank resolution fund) that are not included in the trading book:

(in thousands of EUR)	**2019**
The Bank Resolution Fund	6,767
Bankart, d.o.o., Ljubljana	150
Imobilia—GBK, d.o.o., Kranj	2,521
Hypo leasing, d.o.o., Ljubljana	84
Total	**9,522**

Investments into the capital of companies Imobilia-GBK, d.o.o., Kranj, Hypo leasing, d.o.o., Ljubljana represented long-term investments into Affiliated Companies.

13. Exposure to Interest Rate Risk on Positions Not Included in the Trading Book

The Nature of the Interest Rate Risk and the Key Assumptions (Including Assumptions Regarding Loan Prepayments and Behaviour of Non-maturity Deposits), and Frequency of Measurement of the Interest Rate Risk (Article 448 of the CRR Regulation)

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The Group has an established system for monitoring interest risk to ensure an adequate level of net interest income and an adequate level of the Grop's capital in the environment of changing interest rates. It is the Group's policy to regularly monitor and control the Group's exposure to interest risk, to develop scenarios of interest rate development, and to prepare measures in the event of interest movements that could seriously negatively impact the net interest income and the Group's capital.

Assumptions Regarding Loan Prepayments and Behaviour of Demand Deposits

The Group identified the following items to be sensitive to interest rates without contractual maturity:

- Demand deposits, including states on transaction accounts, as well as savings accounts in retail operations in the part which is accessible,
- Deposits redeemable at notice, including such deposits of legal entities,
- Limits on transaction accounts and revolving loans.

In accordance with its internal methodology, the Group is analyzing the stability of demand deposits considering the changes in the scope and characteristics of demand deposits on the annual basis, as well as how the movement impacts their stability. Taking into account the fact that interest rates for demand deposits do not change in the same scope or ratio as other market interest rates, the Group is treating the demand deposits in a conservative way and is placing them into maturity buckets, based on their stability. Furthermore, Group makes differentiation between stable and unstable part of deposits, while stable part of deposits is treated as those which will stay unused with the high degree of likelihood. Also, the stable part of sight deposits is classified on core and non-core part, while the core part is related to stable deposits which are unlikely to reprice even under significant changes in the interest rate environment and/or other deposits for which the Group could modelled deposits movement in compliance with interest rate changes. Based on results of stability analysis, the Group could treat part of the demand deposits as "non-core" demand deposits and classify them into appropriate maturity buckets of shorter maturity (up to one month), while the stable part is placed into the remaining buckets with maturity of up to five years. Such distribution assumes that most of the demand deposits will stem due to unfavourable changes of all interest rates at the unchanged internal interest rates for demand deposits, raised in the first year and then in the linear falling trend every year.

Deposits redeemable at notice of legal entities are analysed by the Group once per year and on the basis of the analysis results regarding the scope and maturity of these deposits, the Group then evaluates the means of discussing them in the framework of the interest rate risk management as per the criterion of materiality of their impact on interest rate positions.

The Group is also monitoring the utilisation of limits on transaction accounts, which is stable and has no important impact from the viewpoint of interest risk.

Long-term loans with fixed interest rates are defined as items with embedded options. On the basis of the analysis of early repayments, it was found that the utilisation portion from the early repayment option on the basis of the entire credit portfolio is low, therefore possible early repayments are not considered in the classification of items into maturity buckets. Long-term loans with variable interest rate are for natural persons and also legal entities classified into maturity buckets, based on re-determination of interest rates. These loans are thus, from the aspect of exposure to the changes of interest rates, treated as short-term, so the probability that a loan prepayment might occur before the interest rates change again, is small.

The Variation in Earnings, Economic Value or Other Relevant Measure Used by the Management for Upward and Downward Rate Shocks, Broken Down by Most Important Currencies

(Article 448 b of the CRR Regulation)

Interest rate risk is shown as the risk of interest rate variability affecting the Group's net interest income and as the risk of interest rate variability affecting the fair value of financial instruments with a fixed interest rate. Changes in interest rates also affect the economic value of the Group's capital, since the present value of future cash flows from bank assets, liabilities and off-balance sheet positions changes.

Interest rate risk arises from interest rate sensitive assets with different maturities and dynamics of changes in variable interest rates as liabilities. The Group monitors and manages exposure to interest rate risks based on the methodology of interest rate spreads and extreme situation tests for various scenarios involving interest rate movements.

The Group monitors and analyzes interest rate sensitivities by individual time buckets, which include interest rate sensitive balance sheets and off-balance sheet items by type of interest rate and time buckets according to their maturity or interest rate repricing date.

To test the effect of interest rate shock scenarios the Group uses the system of interest rate risk exposure limits which are checked against net interest income and economic value of equity. The Group uses the criterion for the impact of a 100bp change in interest rates on net interest income over a one year period curve. When assessing the impact on the Group's capital, the Group prepares eight different interest rate shock scenarios and the one which has the most adverse effect uses for measuring the economic value of equity.

The Group Risk Controlling function regularly monitors and reports quarterly to the Group Risk and Audit Committee and Group Supervisory Function on interest rate risk on a consolidated basis.

The management of interest rate risks is based on a limit system for exposure to interest rate risk. The Group has determined the limit of exposure to interest rate risks at the highest level in its Risk Appetite Statement, where it set the impact of interest rate variability on the Group's capital as one of key indicators, setting the limit value of the indicator showing the impact of a parallel increase/decrease in market interest rate levels by 200 basis points to 20% of the capital.

Taking into account the adopted methodology, a horizontal curve shift by 100 basis points for all time pockets would imply a change of net interest income in a 1-year period by EUR 14 million assuming that the Group's investments and liabilities as at 31 December 2019 remain unchanged and held to maturity, and that the Group would not actively interfere with the structure of the investments and liabilities to change exposure to interest rate risk.

The Group also assesses the impact of interest rate variability on the economic value of capital. The most adverse effect of applied scenarios is steepener scenario (short-term rates shift down, long-term rates shift up) which decreases the Group's economic capital by EUR 13 million.

14. Remuneration Policy

(Article 450 a, b, c, d, e, f, g, h, i, j of the CRR Regulation)

The Group has adopted Group Remunirantion Policy in order to define the main principles that shuld be applied on local level by each Group member. Each subsidiary have adopted their remuneration policy on the local level. Local Policies shall follow, to the maximum extent permitted under applicable local law, the principles and rules set out in Group Remuniration Policy.

All subsidiaries shall comply with the following principles when determining remuneration policies and practices of their employees:

- the remuneration policy is compatible with effective and wise risk management and it also encourages such risk management, while it does not encourage risk exposure that would surpass the risk level that is acceptable;
- the remuneration policy is in accordance with the business strategy, goals, values and long-term interests of the Group and it includes measures to prevent conflicts of interest;
- the employees who are performing control functions are independent from the organisational units they are monitoring and have appropriate authorisations and receive remunerations based on achieving objectives related to their functions, independently of the success of the business areas they are monitoring;
- the remuneration policy must clearly distinguish between the measures of determining fixed remunerations and variable remunerations;
- the variable part of a remuneration is based on a combination of an individual's performance assessment, their organisational unit and respective subsidiary business results;
- each subsidiary may establish internal rules on the system of reducing the value of all or part of deferred variable remuneration (malus) or clawback, which must be in accordance with the applicable local legislation;
- payment to each individual regarding the premature cancellation of an employment contract is expressed by the success of this individual in a certain time period and it must not reward unsuccessfulness or possible violations.

The working performance is determined primarily on the ground of quality and volume of the work performed, as well as on other criteria determined on the subsidiary level in accordance with applicable local legislation.

The monthly performance-based (fixed part of remuniration) pay is a part of the salary that is paid monthly according the individual employment contract that the employee concludes with his/her employer (subsidiary), and in accordance with the requirements of the applicable local legislation.

In addition to the fixed part of the remuneration, the employees may also be entitled to variable remunerations – including short-term incentive and long-term incentive plans, in accordance with the provisions in their individual employment contracts and remuneration policy of the respective subsidiary.

The ratios between the fixed and variable components of remuneration are balanced so that the total amount of an employee's remuneration is not dependent on the variable component, yet still effectively encourages employees to achieve or exceed the planned results.

Performance based remuneration may be disbursed as cash bonus, shares, share based instruments, including conditional shares and other generally approved instruments, all in strict accordance with the applicable local legislation.

The variable remuneration must be designed in such a way that it does not surpass 100 percent of the fixed remuneration, if such restriction exists in accordance with applicable local legislation. Each subsidiary defines the ratio between fixed and variable remuniration but in all subsidiaries this ratio does not exceed 40%. In principle, variable remuneration is determined on the basis of the performance assessment of achieving of the business performance of the respective subsidiary, as well as of the annual individual goals measured and assessed in accordance with the internal acts of the respective subsidiary. The variable part of the remuneration has to reflect the sustainable and risk-based success that is higher than the average expected success, reflected in the fixed part of the remuneration.

Generally, performance assessment is carried out once a year, or in a different period of time if so determined by the respective subsidiary. The variable remunerations, including the deferred part – if such payment is allowed in accordance with the applicable local legislation, is only paid out or payable:

- when the financial state of the respective subsidiary and its risk exposure are acceptable and sustainable, and
- when such payment is justified by the business success of the respective subsidiary, the organisational unit and the individual in the relevant time period (which is used as a benchmark for the performance assessment – e.g. calendar year, etc.).

In order to ensure long-term success, if it is allowed according to the requirement of the applicable local legislation, the subsidiary may defer payment of some part of variable remuneration. During the period of deferral, the deferred part of the variable remuneration shall be free of interest.

(in thousands of EUR)

	Fixed remuneration	Variable remuneration, accounted in 2019 for business year 2018			The ratio between fixed and variable remuneration	Cost reim-bursements	Insurance premiums	Other benefits	Total
		Payment in cash	Payment in financial instruments	Deferred remuneration					
Management functions: 15 employees	1,179,643	94,222			1: 0.08	3,158	11,428	135,664	1,424,115
Commercial banking (corporate and retail): 16 employees	1,099,133	102,985			1: 0.08	25,002	17,578	35,039	1,279,737
Asset management: 12 employees	511,485	51,404			1: 0.10	3,753	6,018	7,094	579,753
Back office and support: 48 employees	1,888,909	91,586			1: 0.05	44,603	15,695	8,352	2,049,145
Independent functions and internal control (risk management): 20 employees	1,013,768	85,490			1: 0.08	38,350	11,731	137,873	1,287,212
Other: 36 employees	828,064	55,340			1: 0.07	4,888	5,076	181,400	1,074,768
Total 147 employees	**6,521,002**	**481,027**	**0**	**0**		**119,754**	**67,526**	**505,422**	**7,694,731**
Supervisory board: 18 members	**536,615**	**0**				**41,479**	**605**	**3,435**	**582,134**
TOTAL: 165	**7,057,617**	**481,027**	**0**	**0**		**161,233**	**68,131**	**508,857**	**8,276,865**

Amounts of outstanding deferred remuneration, split into vested and unvested portions

The balance of unpaid principal in alternative instrument and deferred payment as at 31 December 2019

	Unpaid principal		
	Promissory note	Deferred part	Total
Management functions: 2 employees	82,361	177,120	259,481
Corporate and Retail Banking: 2 employees	73,605	75,140	148,745
Asset management	-	-	-
Risk management	-	-	-
Back office and support	-	-	-
Indep. func.of inter.cont	-	-	-
Other	-	-	-
Total: 4 employees	**155,966**	**252,260**	**408,226**

Amount of severance payment, allocated during the financial year, number of beneficiaries and the highest allocation to the individuals

The severance payments in 2019

	The severance payments
Management functions: 2 employees	96,372
Corporate banking	-
Retail banking	-
Asset management	-
Risk management	-
Back office and support	-
Indep.func.of inter.cont: 3 employees	132,900
Other: 2 employees	181,400
Total: 7 employees	**410,672**

There were no deferred remuneration awarded during 2019, paid out and reduced through performance adjustment.

There were no pre-agreed variable remuneration in 2019.

None of the employees in any of the subsidiaries was paid EUR 1 million or more in 2019.

Each entity discloses the payments to individual members of the Management Board in their Annual Report on solo level in accordance with the local regulation.

15. Leverage

(Article 451 of the CRR Regulation)

The purpose of the leverage ratio is to limit the size of the Group balance sheet with a special emphasis on exposures not weighted as part of the existing calculations of capital requirements. The calculation of the leverage thus uses Tier 1 capital in the numerator, while in the denominator it uses the total exposure of all balance and off-balance-sheet items after performed adjustments, as part of which exposures from derivatives, exposures from securities financing transactions and other off-balance-sheet items are especially emphasised.

In accordance with Article 499(2) of the CRR, the Group decided to disclose the leverage ratio where the capital measure is Tier 1 capital.

The Group's leverage ratio calculated according to guidelines of the Commission Delegated Regulation (EU) 2015/62 amounts 14.69% and is above the 3% threshold defined by the Basel Committee on Banking Supervision (BCBS).

To fulfil the obligations regarding the disclosure of information about the leverage, the Group used templates from the implementing regulation for the disclosure of the leverage ratio. The template items which are not relevant are not shown. The data in templates are in thousands of EUR.

(in thousand EUR) **31 December 2019**

LRSum table: Summary reconciliation of accounting assets and leverage ratio exposures

Sequential number of the item and the item title		
1	Total assets as per published financial statements	3,744,319
4	Adjustments for derivative financial instruments	358
5	Adjustments for securities financing transactions "SFTs"	62,706
6	Adjustment for off-balance-sheet items (namely, the conversion to credit equivalent amounts of off-balance-sheet exposures)	185,527
7	Other adjustments	(75,981)
8	**Total leverage ratio exposure**	**3,916,929**

LRCom template: Leverage ratio common disclosure; Total exposure measure for calculating the leverage ratio according to the CRR

Sequential number of the item and the item title		
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	3,680,282
2	(Asset amounts deduced in determining Tier 1 capital)	(11,944)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**3,668,338**
Derivative exposures		
4	Replacement cost associated with all derivatives transactions	358
11	**Total derivative exposures (sum of lines 4 do 10)**	**358**
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	62,706
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**62,706**
Other off-balance sheet exposures		
17	Off-balance-sheet exposures at gross notional amount	717,372
18	(Adjustment for conversion to credit equivalent amouns)	(531,845)
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**185,527**
Capital and total exposures		
20	Tier 1 capital	575,202
21	**Total leverage ratio exposures(sum of lines 3, 11, 16, 19)**	**3,916,928**
Laverage ratio		
22	**Leverage ratio**	**14.69 %**

LRSpl template: Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

Sequential number of the item and the item title		
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	3,668,338
EU-3	Exposures in non-trading book, of which:	3,668,338
EU-5	Exposures treated as exposures to central government	548,906
EU-6	Exposures to regional governments	7,407
EU-7	Institutions	111,354
EU-8	Exposures secured by mortgages on immovable property	412,924
EU-9	Retail exposures	548,654
EU-10	Exposure to corporates	1,096,662
EU-11	Exposures in default	66,845
EU-12	Other exposures	875,586

LRQua template: Fields intended for free form content, for disclosing qualitative items

1	MDescription of processes used for managing the risk of a overleverage
	The Group regularly assesses the adequacy of the level of the leverage ratio indicator, simultaneously with the assessment of the level of the capital adequacy indicator and other indicators of adequate level of capital. The Group uses the leverage indicator in a set of indicators for systemic warnings as part of the Group’s recovery plan made according to the provisions of Directive 2014/59/EU of the European Parliament, which also defines limit values of the level for activating mechanisms. Thresholds are regularly monitored and reported to Group Risk and Audit Committee.
2	Description of factors that affected the leverage ratio in the period relevant to the disclosed leverage ratio
	As evident from the table below, the leverage ratio reached high levels in 2019, well above regulatory and internaly defined thresholds.

	31/12/2019	30/9/2019	30/6/2019	31/3/2019
Leverage ratio	14.69%	16.58%	16.28%	16.73%

16. Use of Credit Risk Mitigation Techniques

(Article 453 b, c, d, e, f and g of the CRR Regulation)

Policies and Processes for Collateral Valuation

Credit risk mitigation involves the establishment of measures and rules for the application of these measures, relating to the acquisition, reduction, diversification, transfer and avoidance of risks.

In order to maintain risk at an acceptable level, each subsidiary applies credit risk mitigation techniques at the level of individual placements by respecting internally set limits, diversifying placements/ investments and acquiring acceptable security instruments (collaterals).

Mitigation of concentration risk is carried out by active management of the Loan portfolio, as well as by adjusting the level of exposure with the defined internal limits.

The Group accepts various types of collateral. Subsidiaries define in their internal procedures a list of acceptable collaterals. For each collateral type, eligibility, whether collateral is eligible to be treated as mitigation factor, is defined. Collaterals must fulfill legal and regulatory requirements in order to be accepted as mitigant factor.

Further, for every collateral valuation criteria are defined for determination of internal value of collateral. Internal collateral valuation is calculated in such a way that a haircut is applied on the market value, whereby the amount of the haircut depends on the type of collateral. Each subsidiary defines haircuts taking into the account market specifics.

Subsidiaries analytically monitor collateral held - in accordance with the statutory requirements monitors and reports on collateral according to fair or market value. For managing, monitoring and appraising of real estate collateral, each bank subsidiary has implemented an application of the collateral module, developed by an external institution. Each subsidiary has adopted list of official appraisals and appraisal companies.

Description of the Main Types of Collateral Taken by the Group

The main types of collateral accepted by the Group:

- residential and commercial real estate;
- movable property;
- assigned claims;
- bank deposits;
- securities and business shares;
- bank and other guarantees;
- collateral at an insurance company;
- collateral in the form of surety and approach to debt;
- bills of exchange;
- pledged business interests;
- other collateral (e.g. comfort letters).

Pledge on immovable property is the most common form of collateral for legal entities and natural persons placements in the long term.

Main Types of Guarantor and Credit Derivative Counterparty and their Creditworthiness

Guarantees or unfunded credit protection is a type of credit risk mitigation where a third person undertakes to pay the owed amount in the event of a default by primary obligor (borrower).

The most important types of suitable guarantors:

- guarantees by the central government;
- guarantees by institutions.

Institutions that the Group takes into account as guarantors when recognising unfunded credit protections to calculate the capital requirement for credit risk have no credit assessment of a suitable ECAI, but exposures are assigned a weight of 20% due to the country where the institutions are located (in accordance with the CRR regulation).

Institutions that the Group takes into account as guarantors when recognising unfunded credit protections to calculate the capital requirement for credit risk have no credit assessment comparable to ECAI, but exposures are assigned a weight of 0% due to the country where the institutions are located (in accordance with the CRR regulation).

The Group has no transactions with credit derivatives.

Information about Market or Credit Risk Concentrations within the Credit Mitigation Taken

Group avoid concentration risk related to collaterals by diversying its portfolio per volume, clients segment, geographic region, etc.

In the event of collateral in the form of securities, Group is faced with market risk, or more accurately, the risk of the security prices changing on the capital market. In the event of collateral in the form of guarantees, there is a credit risk of the collateral provider, therefore Group includes the amount of the surety received in the guarantor's upper limit of borrowing.

When approving placement, the counterparty risk in transaction and the assessment of the client's free financial flow are of primary importance, collateral is only a secondary source for paying the obligations. To avoid the effect of risks that are the result of individual forms of collateral, subsidiaries define minimum ratios between the value of collateral and the loan.

In order to form individual impairments, Group considers the liquidation values of real estate collaterals, which include both the assessed sale timeline as well as additional discounts for the process of a forced sale and incurred costs. Because the assessed liquidation values stem from market values, a significant reduction of the market value would see Group form additional impairments.

Exposure Value Covered by Eligible Financial Collateral

As eligible collateral for calculating the capital requirement for credit risk, Group uses the following financial collaterals:

- bank deposits at the a member bank or cash-like instruments the member bank holds (it takes into account deposits maturity of which equals or exceeds the maturity of the credit exposure);
- debt securities issued by central government or central banks (that have a credit assessment from a suitable ECAI with a credit quality step of at least 4);
- debt securities issued by institutions (that have a credit assessment from a suitable ECAI with a credit quality step of at least 3);
- debt securities issued by other entities (that have a credit assessment from a suitable ECAI with a credit quality step of at least 3);
- debt securities issued with a short-term credit assessment from a suitable ECAI (with a credit quality step of at least 3);
- equities or main index convertible bonds;
- gold.

The table below shows the total value of exposures by individual exposure classes covered by eligible financial collateral.
These are collaterals in the form of bank deposits.

(in thousands of EUR)	Financial Collateral 31/12/2019
Companies	31,112
Institutions	65
Retail exposures	10,060
Exposures in default	712
Items associated with particularly high risk	2,373
Other items	269
Total exposures	**44,592**

Exposure Value Covered by Guarantees or Credit Derivatives

(Article 453 g of the CRR Regulation)

The table below shows the total value of exposures by individual exposure classes covered by guarantees.

(in thousands of EUR)	Guarantees 31/12/2019
Companies	45,919
Institutions	-
Retail exposures	374
Total exposures	**46,293**

17. Disclosure of IFRS 9 transitional arrangements

(Article 473 a of the CRR Regulation)

The Group did not use transitional arrangements to calculate the regulatory capital or any other amount of risk-weighted assets.

18. Disclosure of own funds

(Article 492 of the CRR Regulation)

Disclosure is irrelevant for the Group because the transitional arrangements to calculate the regulatory capital or any other amount of risk-weighted assets are not used.